ORIGINAL

UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF TEXAS
FORT WORTH DIVISION

RICHARD HRENIUK, Derivatively on Behalf of VIRBAC CORPORATION vs. THOMAS L. BELL, et al. -and- PETER LINDELL vs. THOMAS L. BELL, et al.	Action No. 4:04 CV-133-Y (Consolidated with 4:04 CV-134-Y) U.S. DISTRICT COURT NORTHERN DISTRICT OF TEXAS FILED MAR - 1 2005 1:19 CLERK, U.S. DISTRICT COURT By ________ Deputy JURY TRIAL DEMANDED

VERIFIED CONSOLIDATED AMENDED SHAREHOLDER DERIVATIVE COMPLAINT FOR BREACH OF FIDUCIARY DUTIES, ABUSE OF CONTROL, GROSS MISMANAGEMENT, WASTE OF CORPORATE ASSETS, UNJUST ENRICHMENT, BREACH OF FIDUCIARY DUTIES FOR INSIDER SELLING AND MISAPPROPRIATION OF INFORMATION AND FOR VIOLATIONS OF THE SARBANES-OXLEY ACT OF 2002

NATURE OF THE ACTION

1. This is a shareholder derivative action brought in the right of, and for the benefit of, nominal defendant Virbac Corporation ("Virbac" or the "Company") against its Board of Directors (the "Board") and certain top officers to remedy defendants' breaches of fiduciary duties and other violations of law which have inflicted millions of dollars in damages upon Virbac's reputation, goodwill and standing in the business community and have exposed it to millions of dollars in potential liability for violations of state and federal law. This action arises out of defendants causing Virbac to file false financial statements and to issue misleading statements between May 3, 2001 and November 12, 2003 (the "Relevant Period"), resulting in the Company being forced to restate its financial results for the entire two-and-a-half year period.

Defendants' misconduct has caused severe, irreparable, injury and damages to the Company, particularly to its reputation and goodwill in the investment and business community, has subjected the Company to a formal investigation by the Securities and Exchange Commission ("SEC"), caused its stock to be delisted, caused the Company to lose nearly $108 million in valuable market capitalization or over 58% of the Company's value, subjected the Company to tens of millions of dollars in potential liability for violations of the federal securities laws, and has virtually destroyed this once valuable franchise.

SUMMARY OF THE ACTION

2. On November 12, 2003, after the close of the market, Virbac announced that it would delay the release of its results for the quarter and nine months ended September 30, 2003, as well as the filing of its corresponding quarterly report of Form 10-Q with the SEC, pending completion of an internal inquiry being conducted by the Audit Committee of the Board. The Company further announced that during the course of their quarterly review, the Company's outside auditors raised questions related to certain of the Company's revenue recognition practices and inventory accounting practices. The Company also announced the Audit Committee had retained outside counsel to conduct an internal inquiry into the matters raised and that it had advised the SEC of this development.

3. On this news, the Company's stock fell the next day by 22% or $1.85 per share before trading was halted by Nasdaq at 10:46 a.m., eastern time resulting in a one day loss of over $41.14 million in market capitalization. The Company's stock price was $6.50 per share when trading was halted by Nasdaq.

4. On November 24, 2003, Virbac, admitting its prior financial statements had been materially false and misleading, announced that it would restate its financial results for FY:01,

FY:02 and the first two quarters of FY:03 due to the questions raised by its auditors. The Company also announced that Nasdaq intended to delist the Company's common stock due to the Company's failure to file its quarterly report on Form 10-Q for the period ended September 30, 2003. As a result, Nasdaq changed the Virbac's trading symbol from "VBAC" to "VBACE" to reflect the Company's filing delinquency.

5. On December 18, 2003, the Company announced preliminary estimates for the third quarter of FY:03 and restated FY:01, FY:02 and for the six months ended June 30, 2003. The Company estimated that, through admittedly improper revenue recognition, it had overinflated revenue by $7.5 million and net income by $3.1 million during the restated period by, *inter alia*:

> (1) Improperly recognizing revenue on certain products that had been returned or destroyed after their shelf life had expired;
>
> (2) Improperly recognizing revenue on products that had been shipped to wholesalers at the ends of several fiscal quarters, but held for delivery until several days into the succeeding quarters, even though applicable accounting rules required that the revenue be recorded in the quarter in which the products were actually delivered rather than when they were shipped; and
>
> (3) Improperly recognizing revenue at the time of shipment relating to certain shipments that, under applicable accounting rules, should have been accounted for as consignments of the product, with the revenue recorded as of the time of payment rather than at the time of shipment.

6. In addition, in its December 18, 2003 announcement, the Company cautioned that the foregoing restated results were preliminary and/or that the estimates could change following further review by the Company's accounting staff and/or as further information was developed by the Audit Committee's inquiry. The Company warned that any such changes could be significant. The Company also warned, however, that none of the estimated restated results had

been reviewed by the Company's independent auditors. The Company also emphasized that its prior guidance on earnings for the year ending December 31, 2003 should no longer be relied upon. Finally, the Company announced that Thomas L. Bell ("Bell") had taken a voluntary leave of absence, with pay, from his positions as Chief Executive Officer ("CEO") and member of the Board pending completion of the Audit Committee's inquiry.

7. On February 6, 2004, the Company announced that in connection with the ongoing review of the Company's improper accounting, defendants Bell and Joseph A. Rougraff ("Rougraff"), Chief Financial Officer ("CFO") and Secretary of the Company, had resigned from all positions they held with Virbac. Specifically, the Company issued a press release that date entitled "Virbac Corporation Announces Executive Resignations" which was attached as Exhibit 99.1 to the Company Form 8-K filed with the SEC on February 11, 2004 and which stated in relevant part:

> In connection with the ongoing review of the company's financial reporting, Virbac Corporation, today announced that Thomas L. Bell, formerly a director and the Chief Executive Officer of the Company, and Joseph A. Rougraff, formerly Chief Financial Officer and Secretary of the Company, have resigned from all positions they held with Virbac Corporation and its affiliates effective as of the close of business Tuesday, January 27, 2004. As previously announced on December 18, 2003, Mr. Bell had been on leave and David G. Eller had been named Interim Chief Executive Officer. Following Mr. Bell's resignation, Mr. Eller has been named Chief Executive Officer of Virbac Corporation. Mr. Eller is a Houston business executive who recently was Chief Executive Officer of DuPont Pharma-Europe. The Company is conducting a search for a new Chief Financial Officer.

8. On February 19, 2004, the Company announced that it was now the subject of a formal investigation by the SEC into whether there had been violations of the federal securities laws and, in connection therewith, the SEC had subpoenaed certain documents from the Company.

9. On November 8, 2004, nearly a year after it announced its estimates for the third quarter of FY:03 and restated FY:01, FY:02 and for the six months ended June 30, 2003, the Company announced that "prior statements regarding the Company's estimated or projected performance and the estimated or projected effects of the Company's previously announced restatement of prior period results should be disregarded." In relevant part, the release stated as follows:

> The Company has completed the internal investigation and related forensic accounting analysis it first reported on November 12, 2003. Based on the outcome of this investigation and analysis, the Company no longer believes that the previously reported preliminary estimates and projections should be relied upon.
>
> Without limiting the generality of the forgoing, the Company identified the following specific information as no longer being reliable:
>
> - All statements concerning the Company's projected performance and/or revenue goals for 2004 made by the Company's former management;
>
> - The statement contained in the Company's November 24, 2003 press release and related Form 8-K filing with the United States Securities and Exchange Commission (and either repeated or not disclaimed in subsequent press releases and SEC filings) that the Company's restatement of prior period results would affect only previously released financial information for 2001, 2002 and the first two quarter of 2003; and
>
> - The preliminary estimates of its third quarter 2003 and restated 2001 and 2002 results set forth in the Company's December 18, 2003 press release and related Form 8-K filing with the United States Securities and Exchange Commission.

10. As now evidenced, at all times during the Relevant Period, the defendants issued false and misleading financial statements and press releases concerning Virbac's financial results that they knew, or should have known based on facts then available to them, were materially false when issued. The financial reports and projections issued by the Company during the

Relevant Period, all of which implicitly and/or expressly were prepared in conformity with Generally Accepted Accounting Principals ("GAAP"), were materially false and misleading because defendants caused the Company to overstate its earnings and financial condition.

11. Since the filing of this derivative action, the situation has continued to deteriorate. Virbac has not filed any financial statements with the SEC in over a year and has yet to release the restatement of its financial results for FY:01, FY:02 and the first two quarters of 2003. Further, Virbac's stock remains delisted and a "Wells Notice" has been issued, indicating that the Company may face a civil action brought by the SEC for violating the federal securities laws. The SEC only sends a Wells notice to a company or an individual after its staff has completed an investigation and determined that sufficient wrongdoing has occurred to warrant civil charges being filed. A January 13, 2005 press release issued by the Company entitled "Virbac Corporation Received Wells Notice From SEC," which was attached as Exhibit 99.1 to the Company's Form 8-K filed that date, stated in relevant part:

> ***Virbac Corporation, a leading marketer of veterinary products, has been notified by the staff of the Securities and Exchange Commission ("SEC") that the staff is considering recommending to the SEC that it bring a civil action against the Company alleging that the Company violated certain provisions of the federal securities laws.*** The staff's notification, commonly referred to as a "Wells Notice," arises out of the SEC's investigation of the Company that commenced in February 2004.

12. It has even been alleged that former employees of Virbac, employed during the Relevant Period, have substantiated these improper revenue recognition practices at Virbac, to wit:

(a) A former Director of Warehousing at Virbac purportedly witnessed trucks returning entire product shipments to Virbac's warehouse at the end of each quarter during 2002 and continuing through the Relevant Period. Based upon this former Director of Warehousing's

observation, it was alleged that the fact that the returned product was obviously untouched and was returned so quickly, implied that the customer had never received the product. This particular individual also allegedly observed at the end of the third and fourth quarters of fiscal year 2002, that Virbac received an unusually high number of invoices from USF Dugan Inc. ("Dugan"), a trucking company, to which payments were being made for Dugan to store Virbac product. Eventually, the product would be returned to Virbac. A former accounting clerk with Virbac purportedly took notice of these unusually high freight charges for storing Virbac product as well. It was alleged that this was one of the methods by which defendants carried out their "Bill and Hold" practices.

(b) It has also been alleged that the Company recorded revenue for damaged, expired, or undesired products that were returned to Virbac and would also book revenue for the products shipped to replace the returned product. This double-booking was taking place because the number of sales reported by Virbac at the end of each quarter was greater than the actual shipments this former Director of Warehousing witnessed leaving the Company.

(c) Incredibly, it has been alleged by a former Accounts Manager for Virbac that the Company's revenue recognition policies would change over the course of a fiscal quarter. It has been alleged that this former Accounts Manager for Virbac claims department heads and regional sales managers would receive regular e-mails and internal memoranda informing them of the revenue recognition policy for the upcoming month. The Company's policy would alternate between recognizing revenue when the product arrived at the customer's receiving dock and recognizing revenue upon its shipment from Virbac's Ft. Worth warehouse.

(d) In addition, upon information from a former Virbac controller, it was alleged that defendant Rougraff was informed by Virbac's outside auditors, PricewaterhouseCoopers, LLP, that even prior to the start of the Relevant Period, Virbac was improperly recognizing revenue for veterinary products at the time of shipment, instead of at the time of delivery and payment. To that end, it has been alleged that e-mails sent with the approval of executive management were routinely sent to sales managers at the end of each quarter, instructing the sales staff to push for last-minute sales because these sales would be recognized as revenue upon shipment from Virbac's warehouse.

13. As a direct result of this illegal course of conduct, the Company has been exposed to millions of dollars in potential liability for violations of the nation's accounting and securities laws and regulations and has been named in numerous federal securities class action lawsuits filed in the United States District Court for the Northern District of Texas, Fort Worth Division, on behalf of investors who purchased Virbac's shares. These lawsuits allege that investors purchased shares of the Company based on false and materially misleading statements regarding the financial condition of the Company and that they have been significantly damaged thereby. Specifically, those actions allege that defendants caused Virbac to issue materially false and misleading statements during the Relevant Period because they failed to disclose and/or misrepresented the following adverse facts, among others: (1) that Virbac had materially overstated its net income and earnings per share; (2) that Virbac had materially overstated its inventory; (3) that Virbac's financial results were in violation of GAAP; (4) that Virbac lacked adequate internal controls and was therefore unable to ascertain the true financial condition of

the Company; and (5) that as a result, the value of Virbac's financial results were materially overstated at all relevant times.

14. In addition, the Company's stock was delisted by Nasdaq and is now quoted only on the National Quotation Service Bureau ("Pink Sheets") for unsolicited trading under the symbol "VBAC.PK." As a result of the delisting from Nasdaq and the Company's stock trading only on the Pink Sheets, the Company continues to suffer damages, including but not limited to: (i) a decreased ability to access the capital markets; (ii) an inability, for all practicable purposes, to use Company stock as currency for acquisitions; and (iii) increased difficulty securing debt financing on favorable terms. The Company's stock continues to trade only on Pink Sheets and has continued to plummet, trading well-below $4.00 per share causing the Company to lose tens of millions more in valuable market capitalization. Indeed, since the Company's November 12, 2003 announcement, the Company has lost nearly $108 million in market capitalization or over 58% of the Company's value.

JURISDICTION AND VENUE

15. This Court has jurisdiction over this action pursuant to 28 U.S.C. § 1332 (a)(2) in that plaintiffs and defendants are citizens of different states and the matter in controversy exceeds $75,000, exclusive of interest and costs. This Court also has jurisdiction over this action pursuant to 28 U.S.C. § 1331 in that plaintiffs' claims arise in part under the Constitution and laws of the United States, including the Sarbanes-Oxley Act of 2002. This Court has supplemental jurisdiction pursuant to 28 U.S.C. § 1367(a).

16. This action is not a collusive one designed to confer jurisdiction on a court of the United States which it would not otherwise have.

17. Venue is proper in the Court because nominal defendant Virbac is headquartered in this District and thus a substantial portion of the transactions and wrongs complained of herein, including defendants' primary participation in the wrongful acts detailed herein, occurred in this District. One or more of the defendants either resides in or maintains executive offices in this District, and defendants have received substantial compensation in this District by engaging in numerous activities and conducting business here, which had an effect in this District.

PARTIES

18. Plaintiff Peter Lindell is, and was at all relevant times complained of herein, a shareholder of nominal defendant Virbac. Lindell is a citizen of New York.

19. Plaintiff Richard Hreniuk is, and was at all relevant times complained of herein, a shareholder of nominal defendant Virbac. Hreniuk is a citizen of New York.

20. Nominal defendant Virbac is a Delaware corporation with its principal executive offices located at 3200 Meacham Boulevard, Fort Worth, Texas, 76137. Virbac develops, manufactures, markets, distributes and sells a variety of pet and companion animal health products, focusing on dermatological, parasiticide, and dental products. Some of the Company's products are manufactured and distributed under license from Virbac S.A., a French veterinary pharmaceutical manufacturer, which, since 1999, has indirectly owned approximately 60% of the Company. As identified in the Company's most recent Proxy Statement:

> The Company has significant transactions with Virbac S.A., which indirectly owns approximately 61% of the Company's stock. The transactions with Virbac S.A. and its related affiliates for the year ended December 31, 2002 are summarized below.
>
> $ The Company purchased raw materials and finished goods in the amount of $.06 million.
>
> $ The Company had sales in the amounts of $1.4 million.

$ The Company has an agreement with Virbac S.A., giving the Company the exclusive U.S. and Canadian rights to manufacture and sell products currently in development and previously developed by Virbac S.A. In 2002, the Company paid a royalty ranging from 2.5% to 6%, or $0.1 million, on Virbac S.A. developed products sold by the Company.

21. Defendant Bell was, at all relevant times, a director of Virbac, its President and CEO until his resignation on or about January 27, 2004. As a director of Virbac, Bell owed a duty to the Company and its shareholders to be reasonably informed about the business and operations of the Company. Moreover, as President and CEO, Bell had also assumed important managerial responsibilities at Virbac which required him to be well informed about the day-to-day operations of the Company. Rather than fulfill these important fiduciary duties Bell owed to Virbac and its shareholders, upon information and belief, he actively participated in or knowingly encouraged, sponsored or approved many of the wrongful acts or omissions complained of herein, and/or breached his fiduciary duties to the shareholders of Virbac by purposefully, recklessly and/or negligently disregarding these wrongful acts or omissions. Bell signed the Company's materially false and misleading Annual Reports on Form 10-K for both FY:01 and FY:02 and falsely certified the Company Form 10-Q's filed after passage of the Sarbanes-Oxley Act of 2002 ("Sarbanes-Oxley") and made numerous improper statement during the Relevant Period. For FY:02 and FY:01, Virbac paid defendant Bell $300,850 and $226,500, respectively, in salary, bonus and other compensation, and granted him 18,000 options to purchase Virbac stock each year. The Company has refused to take advantage of the its legal rights under the mandatory reimbursement provisions of Section 304 of Sarbanes-Oxley to require Bell to disgorge all illicitly obtained incentive compensation. Bell is a citizen of Texas.

22. Defendant Pascal Boissy ("Boissy") was, at all relevant times, a director, Chairman of Virbac and a member of its Audit Committee. As a director of Virbac, Boissy owed a duty to the Company and its shareholders to be reasonably informed about the business and operations of the Company. Moreover, as a member of its Audit Committee, Boissy had also assumed important managerial responsibilities at Virbac which required him to be well informed about the day-to-day operations of the Company, particularly, as a member of the Audit Committee, with respect to the Company's internal systems of accounting controls and procedures, and ensuring the Company's financial statements complied with GAAP. Rather than fulfill these important fiduciary duties Boissy owed to Virbac and its shareholders, upon information and belief, he actively participated in or knowingly encouraged, sponsored or approved many of the wrongful acts or omissions complained of herein, and/or breached his fiduciary duties to the shareholders of Virbac by purposefully, recklessly and/or negligently disregarding these wrongful acts or omissions. During the Relevant Period, Boissy engaged in insider trading disposing of 23,000 shares of Virbac stock for proceeds of $129,231. Boissy signed the Company's materially false and misleading Annual Reports on Form 10-K for both FY:01 and FY:02. Moreover, as a member of Virbac's Audit Committee, Boissy was directly responsible for approving the Company's financial statements, so Boissy is a direct participant in the wrongdoing. Boissy held numerous positions with Virbac S.A. from 1973 through 1999 including serving as its President and Chairman from April 1992 until the end of 1999. Boissy is a citizen of France.

23. Defendant Eric Maree ("Maree") was, at all relevant times, a director of Virbac. As a director of Virbac, Maree owed a duty to the Company and its shareholders to be

reasonably informed about the business and operations of the Company. Rather than fulfill these important fiduciary duties Maree owed to Virbac and its shareholders, upon information and belief, he actively participated in or knowingly encouraged, sponsored or approved many of the wrongful acts or omissions complained of herein, and/or breached his fiduciary duties to the shareholders of Virbac by purposefully, recklessly and/or negligently disregarding these wrongful acts or omissions. Maree signed the Company's materially false and misleading Annual Reports on Form 10-K for both FY:01 and FY:02. Maree joined Virbac S.A. in October 1999 and was appointed its Chairman of the Board of Management, effective December 15, 1999. Maree is a citizen of France.

24. Defendant Pierre Pages, D.V.M. ("Pages") was, at all relevant times, a director of Virbac and a member of its Compensation Committee. As a director of Virbac, Pages owed a duty to the Company and its shareholders to be reasonably informed about the business and operations of the Company. Moreover, as a member of its Compensation Committee, Pages had also assumed important managerial responsibilities at Virbac which required him to be well informed about the day-to-day operations of the Company. Rather than fulfill these important fiduciary duties Pages owed to Virbac and its shareholders, upon information and belief, he actively participated in or knowingly encouraged, sponsored or approved many of the wrongful acts or omissions complained of herein, and/or breached his fiduciary duties to the shareholders of Virbac by purposefully, recklessly and/or negligently disregarding these wrongful acts or omissions. Pages signed the Company's materially false and misleading Annual Reports on Form 10-K for both FY:01 and FY:02. Pages has held numerous positions with Virbac S.A.

including serving as its Chief Operating Officer since 1999 and has been a member of its Director Board since 1992. Pages is a citizen of France.

25. Defendant Alec L. Poitevint, II ("Poitevint") was, at all relevant times, a director of Virbac and a member of its Audit and Compensation Committees. As a director of Virbac, Poitevint owed a duty to the Company and its shareholders to be reasonably informed about the business and operations of the Company. Moreover, as a member of its Audit and Compensation Committees, Poitevint had also assumed important managerial responsibilities at Virbac which required him to be well informed about the day-to-day operations of the Company, particularly, as a member of the Audit Committee, with respect to the Company's internal systems of accounting controls and procedures, and ensuring the Company's financial statements complied with GAAP. Rather than fulfill these important fiduciary duties Poitevint owed to Virbac and its shareholders, upon information and belief, he actively participated in or knowingly encouraged, sponsored or approved many of the wrongful acts or omissions complained of herein, and/or breached his fiduciary duties to the shareholders of Virbac by purposefully, recklessly and/or negligently disregarding these wrongful acts or omissions. Poitevint signed the Company's materially false and misleading Annual Reports on Form 10-K for both FY:01 and FY:02. Moreover, as a member of Virbac's Audit Committee, Poitevint was directly responsible for approving the Company's financial statements, so Poitevint is a direct participant in the wrongdoing. Poitevint is a citizen of France.

26. Defendant Jean N. Willk ("Willk") was, at all relevant times, a director of Virbac and a member of its Audit Committee. As a director of Virbac, Willk owed a duty to the Company and its shareholders to be reasonably informed about the business and operations of

the Company. Moreover, as a member of its Audit Committee, Willk had also assumed important managerial responsibilities at Virbac which required him to be well informed about the day-to-day operations of the Company, particularly, as a member of the Audit Committee, with respect to the Company's internal systems of accounting controls and procedures, and ensuring the Company's financial statements complied with GAAP. Rather than fulfill these important fiduciary duties Willk owed to Virbac and its shareholders, upon information and belief, he actively participated in or knowingly encouraged, sponsored or approved many of the wrongful acts or omissions complained of herein, and/or breached his fiduciary duties to the shareholders of Virbac by purposefully, recklessly and/or negligently disregarding these wrongful acts or omissions. Willk signed the Company's materially false and misleading Annual Reports on Form 10-K for both FY:01 and FY:02. Moreover, as a member of Virbac's Audit Committee, Willk was directly responsible for approving the Company's financial statements, so Willk is a direct participant in the wrongdoing. Willk is a citizen of New Jersey.

27. Defendant Rougraff was, at all relevant times, Vice President, CFO and Secretary of Virbac until his resignation on or about January 27, 2004. As an officer of Virbac, Rougraff owed a duty to the Company and its shareholders to be reasonably informed about the business and operations of the Company. Moreover, as Vice President and CFO, Rougraff had also assumed important managerial responsibilities at Virbac which required him to be well informed about the day-to-day operations of the Company, particularly, as CFO, with respect to the Company's internal systems of accounting controls and procedures, and ensuring the Company's financial statements complied with GAAP. Rather than fulfill these important fiduciary duties Rougraff owed to Virbac and its shareholders, he, upon information and belief, actively

participated in or knowingly encouraged, sponsored or approved many of the wrongful acts or omissions complained of herein, and/or breached his fiduciary duties to the shareholders of Virbac by purposefully, recklessly and/or negligently disregarding these wrongful acts or omissions. Rougraff signed the Company's materially false and misleading Annual Reports on Form 10-K for both FY:01 and FY:02 and falsely certified the Company Form 10-Q's filed after passage of Sarbanes-Oxley and made numerous improper statements during the Relevant Period. For FY:02 and FY:01, Virbac paid defendant Rougraff $173,956 and $139,514, respectively, in salary, bonus and other compensation, and granted him 4,200 and 4,000 options to purchase Virbac stock, respectively. The Company has refused to take advantage of the its legal rights under the mandatory reimbursement provisions of Section 304 of Sarbanes-Oxley to require Rougraff to disgorge all illicitly obtained incentive compensation. Rougraff is a citizen of Texas.

28. The defendants identified above in &&21-27 are collectively referred to hereinafter as the "Individual Defendants." For demand futility purposes, the defendants identified in &&21-26, who make up the current Board of Virbac, are referred to as the "Director Defendants." The defendant identified in &22 is referred to as the "Insider Selling Defendant."

FACTUAL ALLEGATIONS

False and Misleading Statements

29. On May 3, 2001, the Individual Defendants caused the company to issue a press release on *Business Wire*, entitled, "Virbac Corporation Reports First Quarter Results; Net Sales Increase 22 Percent, Operating Income Climbs 172 Percent." It announced financial and operational results for the first fiscal quarter of 2001, the period ended March 31, 2001, stating in part, as follows:

> Virbac Corporation, a leading companion animal health company, ***today reported record results for the first quarter ended March 31, 2001.***
>
> * * *
>
> Mr. Rougraff also noted that, "The first quarter 2000 income included a one-time fee of $0.2 million, earned from granting a third party the use of the Company's proprietary research data. After adjusting for the tax expense and the non-recurring item, ***income before tax expense for the company grew by 262 percent in the first quarter of 2001."***
>
> * * *
>
> Commenting on the results, Thomas L. Bell, President and Chief Executive Officer, noted, ***"We are very pleased with the strong sales and record income growth that the Company achieved in this first quarter."***

30. On or about May 14, 2001, the Individual Defendants caused the Company to file a quarterly report on Form 10-Q, for the first fiscal quarter of 2001, signed by Defendant Rougraff. In addition to making the following false and misleading representations, this report contained the same materially false and misleading financial information previously reported by the Individual Defendants on May 3, 2001:

> The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q.... In the opinion of management, these statements include all adjustments (which consist of normal, recurring adjustments) necessary to present fairly the financial position, results of operations and cash flows for the period ended March 31, 2001 and 2000.

31. On July 31, 2001, the Individual Defendants caused the Company to issue a press release on *Business Wire* entitled "Virbac Corp. Reports Record Second Quarter/Six Months Sales Results; Quarterly Net Sales Increase 21%, Operating Income Increases 34%." The press release stated in part:

> Virbac Corporation, a leading companion animal health company, today reported record sales results for the second quarter and six months ended June 30, 2001.
>
> Net sales for the quarter rose 21 percent to $16.0 million from $13.2 million for the quarter ended June 30, 2000. Gross profit was $6.6 million, or 41

percent of sales, compared with $5.8 million, or 44 percent of sales, in the prior-year quarter. Income from operations totaled $1.0 million, a 34 percent increase, versus $744,000 in the corresponding period last year.

Sales for the six months ended June 30, 2001, rose 22 percent to $31.0 million from $25.5 million in the corresponding period last year. Year-to-date gross profit was $12.5 million, or 40 percent of sales, compared with $10.9 million or 43 percent of sales, in the comparable period of 2000. Income from operations for the six months ended June 30, 2001, totaled $2.2 million, versus $1.2 million in the same period of 2000.

Net income for the second quarter of 2001, increased to $497,000, or two cents per basic and diluted share, as compared to $480,000, or two cents per basic and diluted share, in the comparable quarter in 2000.

Concerning these so-called "record" results, defendant Bell stated:

"We are very pleased with the second quarter's sales results in what has been a difficult economic environment."

"Both our core business and our Pet-Tabs® product are performing well, with each accounting for approximately half of the 22 percent increase in net sales. We also continue to successfully control operating expenses company-wide, which as a ratio to net sales improved from 38 percent in the first six months of 2000, to 33 percent in the six months ended June 30, 2001."

* * *

"Clearly, we expect the IVERHART line to contribute significantly to our goal of reaching $100 million in revenues and $20 million in net income by 2004."

32. On or about August 13, 2001, the Individual Defendants caused the Company to file a quarterly report, on form 10-Q, for second fiscal quarter of 2001 signed by defendant Rougraff on behalf of the Company. This report contained the same materially false and misleading financial information previously reported by the Individual Defendants on July 31, 2001, in addition to making the following false and misleading representations:

The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q.... In the opinion of management, these statements include all adjustments (which consist of normal, recurring adjustments) necessary to present fairly the financial position, results of operations and cash flows for the periods ended June 30, 2001 and 2000.

33. On November 13, 2001, the Individual Defendants caused the Company to issue a press release entitled "Virbac Reports Record Third Quarter/Nine Months Sales; Nine Month Sales Increase 16% to Record $45.7 Million; Core Veterinary Business Continues to Drive Growth," which touted the Company's "record" financial and operational results for the fiscal quarter ended September 30, 2001. The press release stated in part:

> Net sales for the 2001 third quarter rose 60% to $14.7 million from $13.8 million for the 2000 third quarter. Virbac's veterinary division continued to drive sales growth in the quarter, increasing 12% year-over-year.
>
> Gross profit was $6.2 million, or 42% of sales, compared with $6.0 million, or 43% of sales, in the prior-year third quarter. Income from operations totaled $507,000 versus $1.3 million in the corresponding third quarter last year. Net income for the 2001 third quarter was $206,000, or $0.01 per basic and diluted share, compared with $1.1 million, or $0.05 per basic and diluted share, for the comparable quarter of 2000.

34. Moreover, defendant Rougraff used this release to bolster investor confidence and lead investors to believe that Virbac was likely to meet guidance previously sponsored and endorsed by defendants, stating:

> "Our third quarter results reflect the soundness of our business model, demonstrating the product investment strategy fueling Virbac's continued growth. In executing this strategy, we continued to drive new product launches by making essential investments that, for the short term, increased our operating expenses. Year-to-date, we are already seeing excellent results from these initiatives with the registration of three new FDA-approved products, two dermatological product line extensions and one EPA product.
>
> We are confident IVERHART PLUS will drive sales in 2002. While we remain optimistic in achieving our previously forecasted 2001 year-end operating income of $5.4 million, we would like to caution that it is highly dependent upon realizing significant income from sales of IVERHART PLUS in the current fourth quarter. The company is currently in the final stage of gaining FDA clearance to release the product for commercial sales."

Defendant Bell was also quoted in the release, as follows:

> "Overall, Virbac is successfully executing its business model and achieved another terrific quarter in spite of a challenging economy, increased tax expenses and increased investments. Our third quarter was marked by tremendous success in strengthening our market position as we gained new product approvals into new markets that have a combined value in excess of $600 million. Going forward, we are optimistic in continuing this success as sales gain momentum and we further leverage our strategic relationship with Virbac S.A. With these new product approvals, we are building a solid base for growth and we are well on our way to achieving Virbac's goal of $100 million in sales and $20 million of operating income in 2004."

35. On November 13, 2001, the Individual Defendants caused the Company to file a quarterly report on Form 10-Q for the third fiscal quarter of 2001, signed by Defendant Rougraff on behalf of the Company. This report made the same materially false and misleading representations previously reported by the Individual Defendants on November 13, 2001. In addition, it stated the following:

> The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q.... In the opinion of management, these statements include all adjustments (which consist of normal, recurring adjustments) necessary to present fairly the financial position, results of operations and cash flows for the periods ended September 30, 2001 and 2000.

36. On December 13, 2001, the Individual Defendants caused the Company to issue a press release entitled "Virbac Expects Record Fourth Quarter/Year End Sales; Reiterates Outlook of $100 Million in Revenue, $20 Million in Net Income by 2004; Commences Shipment of IVERHART PLUS™." The press release stated in part:

> Virbac Corporation, a leading companion animal health company, announced today that it expects fourth quarter revenue to increase by approximately 10% to a record of $15.0 million compared with $13.6 million in the prior year quarter. For the year ending December 31, 2001, revenue is expected to reach a record of approximately $60.6 million, an approximate 14% increase from $53.0 million in the prior year. The company also anticipates operating income for the year in the range of $3.1 million to $3.5 million, up from approximately $2.8 million for 2000, and is confident in its previously stated guidance of achieving $100 million in revenue and $20 million in net income by 2004.

> Thomas L. Bell, president and chief executive officer of Virbac Corporation stated, "Preliminary figures indicate that we are closing out the year with great sales momentum across all key product lines in spite of an unexpected delay in approvals to ship our IVERHART PLUS chewable tablets for dogs. We have now received all the necessary approvals to ship IVERHART PLUS, and have begun to distribute the product, but the revenue generated by the initial shipments is not likely to contribute significantly to our fourth quarter revenue. We are pleased to note that the strength of our other product lines will enable us to still achieve record revenue and profits despite the delay and a weak economy.
>
> "We look forward to IVERHART PLUS' contribution to even greater revenue and profits in 2002. Given such initially strong market demand and our ability to execute on these opportunities, the delayed shipment will have absolutely no long-term effects on our 2002 outlook. Moreover, we remain confident that IVERHART PLUS will help us achieve our previously stated goal of $100 million in revenue and $20 million in net income by 2004," Bell concluded.

37. On February 19, 2002, the Individual Defendants caused the Company to issue a press release entitled "Virbac Reports Record Fourth Quarter/Twelve Months Sales; Fourth quarter Sales Increase 10 Percent to Record $15.0 Million Year-End Sales Reach Record $60.6 Million, Up 14 Percent; Key Regulated Products and Oral Hygiene Line Continue to Drive Growth." The press release stated in part:

> Virbac Corporation, a leading companion animal health company, today reported record sales results for the fourth quarter and twelve months ending Dec. 31, 2001. Net sales for fourth quarter 2001 rose 10 percent to a record $15.0 million from $13.6 million for the 2000 corresponding quarter.
>
> Thomas L. Bell, Virbac's president and chief executive officer, credits a 21 percent quarter-over-quarter increase in sales of its veterinary products for helping drive sales growth in the quarter. "The sales growth of our veterinary products to $6.5 million was achieved by the initial shipments of our IVERHART™ PLUS canine heartworm prevention product, increased sales of our dental hygiene products, and our pesticide products," Bell said. Sales in the Consumer Brands Division were $3.6 million compared with $4.7 million in the prior year quarter, reflecting the slowing economy. PM Resources sales were $4.9 million, up 40% from the prior year quarter, primarily due to sales of Virbac's livestock pour-on product, which was registered late in the third quarter 2001.

* * *

> Virbac also reported record annual sales results, achieving a 14 percent jump in sales growth from last year reaching $60.6 million in 2001, compared with $53.0 million in 2000. For the twelve months ending December 31, 2001, operating profit increased 11 percent, growing to $3.1 million in 2001, compared with $2.8 million in 2000.

Defendant Bell was also quoted as follows in the release:

> "Overall, we succeeded in meeting our new product goals and achieved solid financial results in 2001 while remaining resistant to economic downturns. We introduced products that are necessary for pet health care, and we have a strong pipeline of products to contribute to future growth."

38. On or about March 21, 2002, the Individual Defendants filed with the SEC, the Company's year end financial report for 2001, on Form 10-K, signed by each of the Individual Defendants on behalf of the Company. It also reported the same materially false and misleading information previously reported by the Individual Defendants on December 13, 2001. Furthermore, in the Notes the 2001 Form 10-K also reported the following:

> REVENUE RECOGNITION
>
> The Company recognizes revenue when the risks of ownership have transferred to the Company's customers.
>
> Revenue related to certain manufacturing customers, for whom the Company provides warehousing and/or distribution services, is contractually recognized upon the completion of the manufacturing process.
>
> Accounts receivable consists of the amounts estimated to be collected on sales, after allowance for uncollected amounts based on historical experience.

39. On May 2, 2002, the Individual Defendants caused the Company to issue a press release entitled "Virbac Reports Record Sales and Operating Income; Achieves Record First Quarter Sales of $15.9 Million; Operating Income Up 17% to First Quarter Record of $1.4 Million; New Products and Strong Demand for Core Products Fuel Growth." The press release stated in part:

> Virbac Corporation, a leading companion animal health company, today reported record sales and operating income results for the first quarter ending March 31, 2002.
>
> * * *
>
> Net sales for the first quarter 2002 rose 6 percent to a record $15.9 million from $15.0 million for the 2001 corresponding quarter. Excluding the effect of the accounting change, first quarter 2002 sales would have risen 20 percent. Strong sales for Virbac's veterinary products continued to drive growth.
>
> * * *
>
> The company reported a first quarter gross profit of $6.8 million, or 43 percent of sales, compared with $6.0 million, or 40 percent of sales, in the prior-year first quarter. Income from operations rose 17 percent to $1.4 million versus $1.2 million in the corresponding first quarter last year. Net income for the 2002 first quarter was $786,000, or $0.04 per basic and $0.03 per diluted share, compared with $581,000 or $0.03 per basic and diluted share, for the comparable quarter of 2001. Excluding the effect of the accounting change, first quarter 2001 fully diluted earnings per share would have been $0.01 per share.

The press release also quotes Defendant Bell, as follows:

> "We continued to achieve excellent sales growth across all key segments and product lines in the first quarter.... Our veterinary division keeps gaining sales momentum on two fronts via new product introductions and strong demand for existing core products.... Existing product sales were led by the oral hygiene product line, where year-over-year sales to veterinarians from our distributors jumped 45 percent in the first quarter."
>
> * * *
>
> "Given strong sales across our core divisions, our profitable product mix with increasing profit margins and our ability to control expenses, we remain optimistic in our outlook."

40. The above statements concerning Virbac's first quarter 2002 results were also materially false and misleading when made because they failed to disclose the following:

(a) Beginning at least as early as the first fiscal quarter of 2002 through at least the second fiscal quarter of 2003, warehouse employees were purportedly instructed by the supervisor of the warehouse and receiving departments, Renee Kunes, to work late hours at the

end of each quarter to get shipments out, allowing the Company to recognize revenue on those shipments. It has been alleged that warehouse employees would work well past midnight to get products shipped. At least once, on June 30, 2003, the last day of the fiscal quarter of 2003, warehouse employees worked until 3:00 a.m. to get products shipped to customers. Specifically, on June 30, 2003, Virbac shipped products to: (i) Burns Veterinary Supply, Inc.; (ii) W.A. Butler Company; (iii) Sunbelt Veterinary Supply, Inc. (a subsidiary of NLS Animal Health); (iv) Webster Vet Supply a/k/a J.A. Webster, Inc. (a subsidiary of Patterson Dental Supply Inc.); and (v) Midwest Veterinary Supply, Inc.

(b) It was also alleged that Virbac shipped out expired products to customers. The sample coordinator in Virbac's Ft. Worth warehouse claimed that expired products, including expired deworming medicines, made up a substantial amount of the returns that were received at Virbac's main warehouse in Ft. Worth. The former Director of Shipping, Warehousing & Distribution claims that: (i) J.A. Webster, Inc.; (ii) W.A. Butler Company; (iii) Midwest Veterinary Supply, Inc.; and (iv) Burns Veterinary Supply, Inc. were among the customers that received and returned products to Virbac.

41. On or about May 15, 2002, the Individual Defendants caused the Company to file a quarterly report on Form 10-Q for the first fiscal quarter of 2002, signed by defendant Rougraff on behalf of the Company. This report contained the same materially false and misleading financial information previously reported by defendants on May 2, 2002. In addition, it made the following false and misleading representations:

> The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q.... In the opinion of management, these statements include all adjustments (which consist of normal, recurring adjustments) necessary to present fairly the financial position as of

> March 31, 2002 and December 31, 2001 and the results of operations and cash flows for the periods ended March 31, 2002 and 2001.

42. On July 30, 2002, the Individual Defendants caused the Company to issue a press release entitled "Virbac Corp's Second Quarter Operating Income Up 21% to $1.2 Million Year/Year; IVERHART™ PLUS Drives Veterninary Division Sales Up 26% to $8.3 Million; Revises Upward 2002 Operating Income Analyst Guidance from $4.1 Million to $5 Million." The press release stated in part:

> For the second quarter 2002, net sales were $15.6 million compared with $16.0 million in the prior-year second quarter.
>
> Second quarter 2002 operating income was $1.2 million versus $984,000 in the corresponding quarter last year. Net income for the second quarter 2002 was $660,000, or $0.03 per basic and diluted share, compared with $497,000, or $0.02 per basic and diluted share, for the comparable quarter of 2001.

Defendant Bell was quoted in the release as follows:

> "Our Vet Division, our largest growth driver, clearly performed well despite the challenging economy, with continued high demand across all major product lines."
>
> * * *
>
> "In the second quarter, we experienced a slight increase in selling general and administrative expenses which includes marketing costs associated with promoting IVERHART PLUS. The increase also reflects our effort to acquire the animal health business of another company, which, after careful due diligence, the parties could not come to an agreement. We will continue to explore synergistic acquisition opportunities that enhance the value of the Company for our shareholders."
>
> * * *
>
> "In conclusion, I am pleased with our success to date in achieving our previously stated goals of improving gross margins as a percent of sales, which grew by three points for the quarter compared with the same quarter last year, and efficiently managing operating expenses, driving our operating income improvement. As a result of these successes, we are right on track to reach our target of 50% gross margin by year-end 2004. We are also able to confidently revise upward previous analyst guidance for 2002 operating income from $4.1 million to a record $5

> million. Net sales will continue to show unusual fluctuations as low margin PMR sales are reduced and new Vet product sales are ramped up."

43. Defendants also hosted a conference call for analysts and investors on July 30, 2002. On the call, defendant Bell stated in part:

> As evidenced by our six month Vet division numbers we are in good shape. Sales climbed 29 percent, gross margin rose 36 percent, and operating income jumped 41 percent. Moreover, the strong year-to-date performance clearly demonstrates the success of our growth model. Specifically, our continued success in growing our profitable Vet division is a direct result of our achieving three very essential stages. First, it marks our ability to effectively conceptualize high demand products; second, our ability to achieve product registrations; and third, our ability to successfully launch and ship new products.
>
> * * *
>
> In addition to strong demand for, and success of our new products, our existing products are experiencing significant growth as evidenced in the second quarter of this year versus last year.
>
> * * *
>
> As a result, we are significantly improving our operating income and are confident that we will maintain this path in the future. And, as Joe has indicated, we expect to achieve a record 5 million in operating income by year end.
>
> * * *
>
> So we're confident we're going to finish strong in 2002. We'll keep moving in 2003 and 2004, and we have no change. We are confident that by the end of 2004, we'll be at 100 million in sales and 20 million in operating income.

On the call, Defendant Rougraff stated in part:

> Gross margin for the quarter increased to $6.9 million, compared to $6.6 million, or 4.5 percent. As a percentage of sales, the gross margin improved to 44 percent compared to 41 percent in last year's second quarter.
>
> * * *
>
> Operating income was $1.2 million for the quarter, compared to $1 million last year. Basic and fully diluted earnings per share for the quarter was 3 cents this year compared to 2 cents last year.
>
> And lastly I'd like to comment that we now feel confident to raise guidance previously provided by an analyst for 2002 operating income from $4.1 million to

> $5 million. The $5 million operating income would represent an increase of 61 percent over the full year of 2001 operating income of $3.1 million.

44. On August 8, 2002, the Individual Defendants filed a quarterly report on Form 10-Q for the second fiscal quarter of 2002, signed by defendant Rougraff on behalf of the Company. This report contained the same materially false and misleading financial information previously reported by defendants on July 30, 2002. In addition, it made the following false and misleading representations:

> The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q.... In the opinion of management, these statements include all adjustments (which consist of normal, recurring adjustments) necessary to present fairly the financial position as of June 30, 2002 and December 31, 2001 and the results of operations and cash flows for the three and six months ended June 30, 2002 and 2001.

45. This second quarter 2002 Form 10-Q was also certified by Defendants Bell and Rougraff pursuant to Section 302(a) and 906 of the Sarbanes-Oxley Act.

46. The certifications attached to and incorporated into the second quarter 2002 Form 10-Q, signed by defendants Bell and Rougraff, respectively, state as follows:

> ***I, Thomas L. Bell, the Chief Executive Officer of Virbac Corporation certify that the foregoing report fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 and that the information contained therein fairly presents, in all material respects, the financial condition and results of operations of Virbac Corporation for the periods covered by the report.***

and

> ***I, Joseph A. Rougraff, the Chief Financial Officer of Virbac Corporation certify that the foregoing report fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 and that the information contained therein fairly presents, in all material respects, the financial condition and results of operations of Virbac Corporation for the periods covered by the report.***

47. On October 31, 2002, the Individual Defendants caused the Company to issue a press release entitled "Virbac Corp's Third Quarter Operating Income Up 216% to Record $1.6 Million Y/Y; Achieves Record Third Quarter Revenue of $15.9 Million; Veterinary Division Third Quarter Revenue Jumps 29% Y/Y to Record $7.5 Million; Strong Sales of IVERHART™ PLUS and Dermatology Product Line Fuel Record Sales." The press release stated in part:

> For the third quarter 2002, net sales reached a record $15.9 million, up 8% from $14.7 million in the prior-year third quarter. Sales for Virbac Corp.'s Veterinary Division, the company's largest contributor to total revenue and profit, jumped 29% to a record $7.5 million from $5.8 million in the 2001 third quarter.
>
> * * *
>
> Third quarter 2002 operating income soared 216% reaching a record $1.6 million versus $507,000 in the prior-year third quarter. Net income for the third quarter 2002 was $947,000, or $0.04 per basic and diluted share, compared with $206,000, or $0.01 per basic and diluted share, for the comparable quarter of 2001.

Defendant Bell stated in part:

> "Virbac achieved a great quarter marked by record Q3 sales and operating income and effective cost management.... Our sales success is directly attributed to the continued strong performance of our Veterinary Division, which experienced increased demand across all major product lines."
>
> * * *
>
> "And we are confident in continuing this growth trend because of our aggressive new product development capability."
>
> * * *
>
> "Our outstanding performance was also achieved by careful management over expenses. As our record sales results indicate, we invested wisely – and as our record operating income indicates, not excessively."
>
> * * *
>
> "We are pleased to continue solid execution of our stated goals and achieve record sales, especially in this challenging economy. Our sustained success is earned by our ability to strike a harmonious balance between bringing regulated, high demand products to the market and diligent cost management. We look forward

> to building on this momentum and expect a bright year-end, reaching our previously stated operating income goal of $5 million."

48. Following issuance of this press release, on October 31, 2002, defendants hosted a conference call for analysts and investors. On the call defendant Bell stated in part:

> I'm excited to discuss with you Virbac Corporation's record performance. For the third quarter year-over-year operating income soared 216 percent to a record 1.6 million. Third quarter net sales reached a record nearing 16 million.
>
> * * *
>
> As a result of our operational successes we are pleased to deliver to our fellow shareholders our record quarter, and we are on target to achieve our stated record 5 million in operating income by year-end.
>
> * * *
>
> We're expecting a strong finish here in the fourth quarter, and I think the take-home message for the shareholder is, again, I think the third quarter, as well as the full-year 2002 is the break-out year for Virbac. We're starting our march upwards in our operating income, we have a lot of growth left.

Moreover, defendant Rougraff stated in part:

> Sales for the quarter were $15.9M compared to 14.7 million in the same quarter last year. Veterinary sales were up 1.7 million to 7.5 million, which represents an increase of 29 percent.
>
> * * *
>
> Operating income was 1.6 million compared to $507,000 last year. Basic and fully diluted earnings per share for the quarter was 4 cents compared to 1 cent last year.

49. On or about November 13, 2002, the Individual Defendants caused the Company to file a quarterly report on Form 10-Q for the third fiscal quarter of 2002, signed by defendant Rougraff on behalf of the Company. This report contained the same materially false and misleading financial information previously reported by defendants on October 31, 2002, in addition to making the following false and misleading representations:

> The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q.... In the opinion of management, these statements include all adjustments (which consist of normal, recurring adjustments) necessary to present fairly the financial position as of September 30, 2002 and December 31, 2001 and the results of operations and cash flows for the periods ended September 30, 2002 and 2001.

50. In accordance with Sections 302(a) and 906 of the Sarbanes-Oxley Act, defendants Bell and Rougraff certified the third quarter 2002 Form 10-Q.

51. The certifications state respectively as follows:

> ***I, Thomas L. Bell, the Chief Executive Officer of Virbac Corporation certify that the foregoing report fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 and that the information contained therein fairly presents, in all material respects, the financial condition and results of operations of Virbac Corporation for the periods covered by the report.***

and

> ***I, Joseph A. Rougraff, the Chief Financial Officer of Virbac Corporation certify that the foregoing report fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 and that the information contained therein fairly presents, in all material respects, the financial condition and results of operations of Virbac Corporation for the periods covered by the report.***

52. On February 20, 2003, the Individual Defendants caused the Company to issue a press release entitled "Virbac Corporation's Fourth Quarter Operating Income Jumps 287% to $1.6 Million Y/Y; Fourth Quarter Sales Grow 9% to $16.3 Million Vet Division Sales Up 32% Reflecting Strength Across All Product Lines." The press release stated in part:

> For the fourth quarter 2002, net sales increased 9%, reaching $16.3 million, compared with $15.0 million in the 2001 fourth quarter. Sales for the Veterinary Division, the Company's largest growth driver, jumped 32% to a record $8.6 million from $6.5 million in the 2001 fourth quarter.
>
> * * *
>
> Fourth quarter gross profit rose 16% to $7.0 million from $6.0 million in the prior-year quarter. Gross margins as a percentage of sales improved to 43%

versus 40% in the comparable quarter last year, reflecting increased sales from the veterinary division, which carry higher gross margins. Fourth quarter 2002 operating income increased 287%, reaching $1.6 million versus $410,000 in the prior-year fourth quarter. Net income for the fourth quarter 2002 was $1.0 million, or $0.04 per basic diluted share, compared with $27,000, or $0.00 per basic and diluted share, for the comparable quarter of 2001.

In addition to higher sales and gross margins, fourth quarter operating income reflected lower operating expenses, which were down $201,000 to $5.4 million.

For the twelve months ended December 31, 2002, net sales grew 5%, reaching a record $63.8 million compared with $60.6 million in the prior-year....

The 2002 gross profit rose 11% to $27.4 million from $24.7 million in 2001. Gross margins as a percentage of sales improved to 43% for 2002 versus 41% in 2001. The improved gross profits were due to higher sales of veterinary products. Operating income increased significantly by 87% to a record $5.8 million from $3.1 million in 2001. Net income for the year was a record $3.4 million, or $0.15 per basic and diluted share, compared with $1.3 million, or $0.06 per basic diluted share, in 2001.

53. In that release defendant Bell stated:

"We closed the year particularly strong in our Vet Division, where sales dramatically increased across all product lines for both new and existing products. We believe this success reflects veterinarians' high level of satisfaction with our products, allowing us to establish solid brand loyalty for our existing products and enthusiasm in endorsing our new product offerings."

* * *

"Looking ahead, 2003 looks just as bright with an excellent new product pipeline for continued robust sales."

* * *

"[W]e still forecast solid profitable growth in 2003."

54. On February 20, 2003, following the release of results for the fourth quarter and year-end 2002, the Individual Defendants also hosted a conference call for analysts and investors. On the call defendant Bell stated in part, as follows:

> All of these achievements in terms of sales of existing products and new product launches contributed to our 2002 year-end operating income increasing by 87 percent to our record $5.8 million from $3.1 million in 2001.

In addition, defendant Rougraff stated in part:

> Sales for the quarter were $16.3 million compared to $15 million in the same quarter last year for an increase of 9 percent. As Tom [Bell] mentioned veterinary sales were up $8.6 million, which represents an increase of 32 percent.
>
> * * *
>
> Gross profits improved to $7 million for 16 percent increase. As a percent of sales, gross margins were 43 percent compared with 40 percent in 2001.
>
> * * *
>
> Operating income was $1.6 million compared to $410,000 last year. Basic and fully diluted earnings per share for the quarter was 4 cents compared to zero cents last year. For the year we have achieved operating income of a record $5.8 million, which is an 87 percent increase over 2001 and a $800,000 increase over our previously issued guidance of $5 million. Diluted earnings per share were record 15 cents versus 6 cents in 2001 for an increase of 150 percent.

55. Furthermore, during the February 20, 2003 conference call, Charles R. Levy, a Smith Barney First Vice President of Investments, asked defendants Bell and Rougraff about a substantial drop in the sales, general and administrative expense reported by Virbac and about certain sales that Virbac had shifted from one quarter to another, purportedly to comply with Staff Accounting Bulletin ("SAB") 101, an SEC staff interpretation of existing GAAP governing revenue recognition. Levy stated that the explanation given by Virbac indicated that the results reported by the Company for "2001 in effect was overstated." In response, Virbac management, denied that the Company's sales figures were overstated and stated that the Company was following GAAP.

56. On or about March 13, 2003, the Individual Defendants caused the Company to file on Form 10-K, its year end financial report for 2002, which also reported the same materially

false and misleading information previously reported by defendants on or about February 20, 2003. In addition, in the Notes, the 2002 Form 10-K also reported the following:

> REVENUE RECOGNITION
>
> The Company recognizes revenue when the risks of ownership have transferred to the Company's customers.
>
> Revenue related to certain manufacturing customers, for whom the Company provides warehousing and/or distribution services, is contractually recognized upon the completion of the manufacturing process.

57. Additionally, Virbac's 2002 Form 10-K also stated the following:

> Within 90 days prior to the date of this report, we carried out an evaluation, under the supervision and with the participation of our principal executive officers and principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on this evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures are effective in timely alerting them to material information required to be included in our periodic reports filed with the Securities and Exchange Commission.

58. The 2002 Form 10-K was signed by each of the Individual Defendants and certified by defendants Bell and Rougraff pursuant to Section 302(a) and 906 of the Sarbanes-Oxley Act.

59. The certification, attached to and incorporated into the 2002 Form 10-K, signed by defendant Bell states:

> I, Thomas L. Bell, certify that:
>
> 1. I have reviewed this annual report on Form 10-K of Virbac Corporation;
>
> 2. ***Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report***;

3. ***Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report***;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

> (a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
>
> (b) evaluated the effectiveness of the registrant's disclosure controls and procedures based on our evaluation as of the Evaluation Date;
>
> (c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

> (a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize, and report financial data, and have identified for the registrant's auditors, any material weaknesses in internal controls; and
>
> (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

60. The certification signed by defendant Rougraff was identical in all material respects to that signed by defendant Bell. Rougraff's certification was also attached to and incorporated into the 2002 Form 10-K.

61. It has been alleged that the financial statements contained in the 2002 Form 10-K, and certified by defendants Bell and Rougraff were also materially false and misleading when made because they failed to disclose the following:

(a) According to the former accounting clerk for Virbac, during the latter half of 2002, product returns at Virbac began to increase. Allegedly, when this accounting clerk looked into the increase, it was discovered that Dugan was "shipping" products from Virbac's warehouse at the end of a fiscal quarter, storing them, and then bringing the products back to the warehouse as customer returns after the end of the quarter. The excessive freight charges for these "ship and hold" shipments were billed to operations and not to the warehouse as would have been the normal procedure.

(b) The former Director of Warehousing allegedly confirmed the existence of these "Bill and Hold" shipments involving Dugan. Purportedly, at the end of the third and fourth fiscal quarters of 2002, Defendant Bell directed this former Director of Warehousing to pay Dugan "freight charges" that Virbac had incurred for holding in trucks stored at Dugan truck yard near Ft. Worth.

62. On May 6, 2003, the Individual Defendants caused the Company to issue a press release entitled "Virbac Corporation Reports First Quarter Results; Company Anticipates Achieving Year-end 2003 EPS of Between $0.16 and $0.18." The press release stated in part:

> Virbac Corporation, a leading companion animal health company, today reported financial results for its first quarter ended March 31, 2003.

For the fist quarter of 2003, net sales were $15.4 million, compared with $15.9 million in the first quarter of 2002. Sales for the Veterinary Division were $6.3 million compared with $8.4 million in the first quarter of 2002, reflecting a temporary backlog in production mainly due to the Company's manufacturing relocation from Harbor City, CA to Fort Worth, TX.

* * *

Gross margins as a percentage of sales were 39% versus 43% in the first quarter 2002, reflecting the Veterinary Division's temporary backorder of sales, which traditionally carries higher gross margins.

First quarter 2003 operating loss was $998,000 compared with operating income of $1.4 million in the first quarter 2002. Net loss for the first quarter 2003 was $659,000, or $(0.03) per diluted share, compared with net income of $786,000, or $0.03 per diluted share, for the comparable quarter of 2002. First quarter performance was impacted by the temporary backorders in the Veterinary Division, which has a significant impact on profit due to its higher than average gross profit margins.

63. The May 6, 2003 release quoted defendant Bell as follows:

"We previously communicated that first quarter earnings would be unfavorably impacted by one-time events; the backorders within the Veterinary Division compounded the situation. Interesting to note is that if back-orders were eliminated, we would have achieved positive sales growth in the first quarter. The back orders are rapidly being reduced and the outlook for the second quarter looks promising."

"I would also like to highlight that our Contract Manufacturing and Consumer Brands Divisions performed very well despite the Veterinary Division's unusual performance."

"Looking ahead, we are confident in returning to profitability in the second quarter. In addition, we continue to rigorously pursue synergistic acquisition opportunities. Overall, we are excited about our growth potential in 2003 and expect to achieve year-end EPS of between $0.16 to $0.18, which represents net income growth in the range of 10% to 20%."

64. On or about May 14, 2003, the Individual Defendants caused the Company to file its quarterly report on Form 10-Q for the first fiscal quarter of 2003, signed by defendant Rougraff on behalf of the Company. In addition to making the following false and misleading

representations, this report contained the same materially false and misleading financial information previously reported by Defendants on May 6, 2003:

> The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q.... In the opinion of management, these statements include all adjustments (which consist of normal, recurring adjustments) necessary to present fairly the financial position as of March 31, 2003 and December 31, 2002 and the results of operations and cash flows for the periods ended March 31, 2003 and 2002.

65. The first quarter 2003 Form 10-Q was also certified by defendants Bell and Rougraff pursuant to Section 302(a) and 906 of the Sarbanes-Oxley Act.

66. The certifications, attached to and incorporated into the first quarter 2003 Form 10-Q, signed by defendants Bell and Rougraff state respectively:

> ***I, Thomas L. Bell, the Chief Executive Officer of Virbac Corporation certify that the foregoing report fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 and that the information contained therein fairly presents, in all material respects, the financial condition and results of operations of Virbac Corporation for the periods covered by the report.***

and

> ***I, Joseph A. Rougraff, the Chief Financial Officer of Virbac Corporation certify that the foregoing report fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 and that the information contained therein fairly presents, in all material respects, the financial condition and results of operations of Virbac Corporation for the periods covered by the report.***

67. On August 7, 2003, the Individual Defendants caused the Company to issue a press release entitled "Virbac Corporation's Second Quarter Sales Rise 22% to Hit Record $19.1 Million; Operating Income Climbs 68% to $2.0 Million; Sales Up 9% Year-to-Date at $34.5 Million." The press release stated in part:

> Virbac Corporation, a leading companion animal health company, today reported results for the second quarter and six months ended June 30, 2003.

> For the second quarter 2003, net sales set a record, rising 22% to $19.1 million from $15.6 million in the second quarter of 2002. Excellent volume demand, coupled with the fulfillment of the backorders open at March 31, 2003, fueled Virbac Corporation's quarterly sales growth.
>
> Virbac achieved a gross margin of 46.9% for the second quarter of 2003, up from 43.9% in the same period of the prior year because of a more favorable mix of products sold....
>
> Second quarter 2003 operating income hit a record $2.0 million, up $800,000 from the $1.2 million, or $0.05 per fully diluted share, compared with $0.7 million, or $0.03 per fully diluted share, in the second quarter of 2002.

This release quoted defendant Bell, who stated the following:

> "We are experienced solid growth in all divisions with strong demand across all product lines."
>
> * * *
>
> "We are excited about the revenue growth attained in the first half of the year...."

68. Following the release of results for the second fiscal quarter of 2003, defendants also hosted a conference call for the analysts and investors on August 7, 2003. On the call, as verified by a transcript later published on *Fair Disclosure Wire*, defendant Rougraff, stated in part, as follows:

> Thanks, Tom, and good morning, everyone. Sales for the quarter were 19.1 million compared to 15.6 million in the same quarter last year. And as Tom noted, sales were up in all of our operating divisions.
>
> * * *
>
> For the quarter, gross profits were 8.9 million versus 6.9 million for an increase of 30 percent. As a percent of sales, gross margins were 47 percent compared with 44 percent in 2002. The higher gross margin was due to a more favorable mix of products sold in 2003.
>
> Operating expenses were 6.9 million for the quarter ended June 30th, 2003 compared to 5.7 million in the prior year quarter.... Operating income was 2 million compared to 1.2 million in the same quarter last year. And lastly, fully diluted earnings per share for the quarter were 5 cents compared to 3 cents last year. Tom?

During the August 7, 2003 conference call, defendant Bell stated, in part, the following:

> [B]efore turning the call over for questions, I would like to close by saying that we are committed to profitably growing the Company and building shareholder value. We project significant growth in the second half of 2003, meeting operating income growth in excess of 50 percent versus prior year's second semester….
>
> We expect to achieve full year net income growth in the range of 10 to 20 percent, or earnings per share of between 16 and 18 cents. In addition to growing sales and developing new products, we continue to rigorously pursue synergistic acquisition opportunities, and are confident that we will be successful in this endeavor.

69. On or about August 8, 2003, the Individual Defendants caused the Company to file its quarterly report on Form 10-Q for the second fiscal quarter of 2003, signed by defendant Rougraff on behalf of the Company. This report contained the same materially false and misleading financial information previously reported by defendants on August 7, 2003. It also made the following false and misleading representations:

> The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q…. In the opinion of management, these statements include all adjustments (which consist of normal, recurring adjustments) necessary to present fairly the financial position as of June 30, 2003 and December 31, 2002 and the results of operations and cash flows for the periods ended June 30, 2003 and 2002.

70. The second quarter 2003 Form 10-Q was also certified by defendants Bell and Rougraff pursuant to Section 302(a) and 906 of the Sarbanes-Oxley Act.

71. The certification, attached to and incorporated into the second quarter 2003 Form 10-Q, signed by defendant Bell states:

> I, Thomas L. Bell, certify that:
>
> 1. I have reviewed this Form 10-Q of Virbac Corporation;
>
> 2. ***Based on my knowledge, this report does not contain any untrue statement of material fact or omit to state a material fact necessary to make the***

statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. ***Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report***;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

> (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
>
> (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
>
> (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

> (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
>
> (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

72. Defendant Rougraff signed a certification that was identical in all material respects to that signed by defendant Bell. Rougraff's certification was also attached to and incorporated into the second quarter 2003 Form 10-Q.

The Truth Emerges

73. On November 12, 2003, the Individual Defendants caused the Company to issue a press release entitled "Virbac Corporation Delays Filing of Its Third-Quarter Results." The press release stated in part:

> Virbac Corporation, a leading companion animal health company, announced today that it will delay the release of its results for the quarter and nine months ended September 30, 2003, as well as the filing of its corresponding quarterly report on Form 10-Q with the Securities and Exchange Commission pending completion of an internal inquiry being conducted by the Audit Committee of the Company's Board of Directors.
>
> ***During the course of their quarterly review, the Company's outside auditors, PricewaterhouseCoopers, raised questions relating to certain of the Company's revenue recognition practices and inventory accounting practices. As a result, the Audit Committee has retained outside counsel to conduct an internal inquiry in response to the issues raised by PricewaterhouseCoopers. The Audit Committee has advised the SEC of this development, and the Audit Committee and the Company will fully cooperate with the government in any proceedings that may relate to this matter.***
>
> The Company is unable to predict at this time when the Audit Committee's inquiry will be completed or when the Company will be in a position to report its third quarter financial results and file its corresponding quarterly report on Form 10-Q. The Company must await the completion of further work on the inquiry to be able to determine the effect of these accounting issues on its historical and current financial statements.

74. On this news, the Company's value collapsed the next day falling 22% or $1.85 per share before trading was halted by Nasdaq at 10:46 a.m., eastern time. The Company's stock value was $6.50 per share when trading was halted by Nasdaq and today trades around $3.50.

75. On November 17, 2003, Nasdaq notified Virbac that the Company's common stock was subject to delisting based upon Virbac's failure to file a Form 10-Q for the quarter ended September 30, 2003.

76. On November 24, 2003, Virbac, admitting its prior financial statements had been materially false and misleading, announced that it would restate its financial results for FY:01, FY:02 and the first two quarters of FY:03 due to the questions raised by PricewaterhouseCoopers relating to certain of the Company's revenue recognition practices and inventory practices. The Company also announced that Nasdaq intended to delist the Company's common stock due to the Company's failure to file its quarterly report on Form 10-Q for the period ended September 30, 2003. On this date, the Individual Defendants caused the Company to issue a press release entitled "Virbac Corporation Expects to Restate Prior Results. Company Also Receives Notice of Intended Delisting of Common Stock by Nasdaq Stock Market Because of Delay in Filing Third Quarter Report." The press release stated in part:

> ***Virbac Corporation announced today that, based upon information developed thus far in the ongoing inquiry conducted by the Audit Committee of its Board of Directors, the Company expects to issue revised financial statements for the years ended December 31, 2001 and 2002 and for the quarters ended March 31 and June 30, 2003 and that its previously issued financial statements for these periods should no longer be relied upon.***
>
> On November 12, 2003 the Company announced that it would delay the filing of its Quarterly Report on Form 10-Q for the quarter and nine months ended September 30, 2003 pending completion of an internal inquiry being conducted by the Audit Committee as a result of questions raised by the Company's independent auditors relating to certain of the Company's revenue recognition practices and inventory accounting practices. The inquiry has not, however, progressed sufficiently to enable the Company to estimate at this time the amounts by which the restated results will vary from the previously reported results. The Company intends to provide preliminary estimates of such amounts as soon as practicable.

> Separately, the Company announced that the Nasdaq Stock Market, which on November 13, suspended trading in the Company's common stock, has notified the Company that it intends to delist the company's common stock for failure to comply with Marketplace Rule 4310(c)(14) due to the Company's failure to file its quarterly report on Form 10-Q for the period ended September 30, 2003. As a result, Nasdaq has changed the Company's trading symbol from "VBAC" to "VBACE" to reflect the Company's filing delinquency. The Nasdaq notification stated that the Company's common stock will be delisted and cease trading at the opening of business on November 26, 2003, unless the Company requests a hearing with the Nasdaq Hearings Department. The Company has requested such a hearing.
>
> If the Company's common stock is delisted, the shares will not be immediately eligible to trade on the OTC Bulletin Board because the Company is not current in all of its periodic reporting requirements under the Securities Exchange Act of 1934.

77. On December 18, 2003 the Company estimated that through admittedly improper revenue recognition it had overinflated revenue by $7.5 million and net income by $3.1 million during the restated period. The Company also announced that defendant Bell had taken a voluntary leave of absence pending completion of the Audit Committee inquiry. On that date, the Individual Defendants caused the Company to issue a press release entitled "Virbac Corporation Announces Preliminary Estimates of Third Quarter and Restated Prior Results." The press release stated in part:

> Virbac Corporation today released preliminary estimates of its third quarter and restated fiscal 2001 and 2002 results. The Company previously reported that it would delay the filing of its Quarterly Report on Form 10-Q for the three months ended September 30, 2003 pending the completion of an inquiry being conducted by the Audit Committee of its Board of Directors and that, based upon information obtained in that inquiry, it expects to issue revised financial statements for the years ended December 31, 2001 and 2002 and for the quarters ended March 31 and June 30, 2003. While the inquiry has not been completed, the Company provided the following preliminary estimates based upon information developed to date.
>
> The Company estimates that it will report net revenues of approximately $17.2 million and net loss of $1.0 million for the three months ended September 30, 2003. These estimated results were affected by an allowance for excess

inventory recorded in the third quarter. At the same time, the Company estimates that it will report restated net revenues of approximately $56.3 million and $62.0 million for the years ended December 31, 2001 and 2002, respectively, as compared with net revenues of $60.6 million and $63.8 million as previously reported for the same respective periods. It further estimates that it will report restated net income of approximately $0.4 million and $2.1 million for the years ended December 31, 2001 and 2002, respectively, as compared with net income of $1.3 million and $3.4 million as previously reported for the same respective periods. Similarly, the Company estimates that its revised statements for the six months ended June 30, 2003 will report restated net revenues and net loss of approximately $33.1 million and $0.4 million, respectively, as compared with net revenues and net income of $34.5 million and $0.5 million as previously reported.

The estimated restatements are the result of several factors, primarily relating to revenue recognition. One principal factor is the reversal of revenues relating to certain products that were subsequently returned or destroyed after their shelf lives had expired. A second significant factor concerns revenue relating to products shipped to a wholesaler at the ends of several fiscal quarters, but held for delivery until several days into the succeeding quarters. The Company has determined that this revenue should have been recorded in the quarter in which the products were actually delivered rather than when they were shipped. A third significant contributor relates to certain shipments that should have been accounted for as consignments of the product, with the revenue recorded as for the time of payment rather than at the time of shipment. The first and second contributors relate to the Company's veterinary division; the third relates to its PM Resources division. Other, less significant factors also contributed to the estimated restatements.

The foregoing estimated restatements will result in a cumulative reduction in revenues of $7.5 million and a cumulative reduction in net income of $3.1 million from amounts previously reported for the two years and six months ended June 30, 2003. Of these amounts, $4.3 million of the cumulative reduction in revenues and $1.3 million of the cumulative reduction in net income are the result of timing differences in revenue recognition, as a result of which corresponding amounts are expected to be recognized in periods subsequent to June 30, 2003.

The Company cautioned that these estimates are preliminary and that the estimates could change following further review by the Company's accounting staff and as further information is developed in the Audit Committee's inquiry. Such changes could be significant. None of the estimated amounts, moreover, have been reviewed by the Company's independent auditors, and all restatement adjustments and reported results will be subject to their review and/or audit. The Company also emphasized that its prior

> ***guidance that it would earn between $0.16 and $0.18 per share for the years ending December 31, 2003 should no longer be relied upon.***
>
> The Company also announced that Thomas L. Bell has taken a voluntary leave of absence, with pay, from his positions as Chief Executive Officer and member of the Board of Directors, pending completion of the Audit Committee's inquiry. During Mr. Bell's absence, David Eller, a Houston, Texas-based executive with senior managerial experience in the pharmaceutical industry, will serve as the Company's Interim Chief Executive Officer.

78. On January 21, 2004, Nasdaq notified Virbac that the Nasdaq Listing Qualifications Panel determined to delist the Company's securities from the Nasdaq Stock Market effective with the open of business on January 23, 2004.

79. On February 6, 2004, the Company announced the resignations of defendants Bell and Rougraff, issuing a press release entitled "Virbac Corporation Announces Executive Resignations." The press release stated in part:

> In connection with the ongoing review of the company's financial reporting, Virbac Corporation, today announced that Thomas L. Bell, formerly a director and the Chief Executive Officer of the Company, and Joseph A. Rougraff, formerly Chief Financial Officer and Secretary of the Company, have resigned from all positions they held with Virbac Corporation and its affiliates effective as of the close of business Tuesday, January 27, 2004.

80. Shortly thereafter, on February 19, 2004, the Company filed a Form 8-K with the SEC and issued a release on Business Wire, announcing that it had been advised by the SEC on February 13, 2004 that a formal order of investigation captioned "In the Matter of Virbac Corporation" had been issued by the SEC.

81. On April 30, 2004, the Company issued a press release entitled "Virbac Corporation's French Parent Issues Statement" announcing that "the level of uncertainty related to" the preliminary data released on December 18, 2003 "was acceptable and, as a result,

included past year restatements and 2003 preliminary financial statements in its consolidated accounts." The press release also stated:

> "The adjustments for 2001 and 2002 are two-fold:
>
> -- Definitive losses: reversal of revenues related to some products that were subsequently destroyed or returned after their shelf life has expired and adjustments of certain expenses, assets and depreciation of inventories. The net impact of these corrections has been recorded as "correction of errors" in the 2003 consolidated statements and amounted to 2.3 million euros of which 1.4 is the Group share.
>
> -- Timing differences related to sales that should have been accounted as of the time of payment at the time of delivery. These timing differences, which fall down from one year to the next, have no incidence in the consolidated accounts.
>
> In addition, Virbac Corp's contribution to the 2003 consolidated profit is negative due to the expenses incurred in relation to the inquiry, the thorough evaluation of expenses and depreciation, and the slow down of sales at year-end.
>
> Virbac Corporation also advised its shareholders that, while it believes Virbac S.A.'s estimates to be reasonable, they should await the release of audited financial statements by the Company."

82. On November 8, 2004, the Individual Defendants caused the Company to issue a press release entitled "Virbac Corporation Provides Update Regarding Restatement." The press release stated in relevant part:

> Virbac Corporation has advised its shareholders and others interested in the Company's progress that prior statements regarding the Company's estimated or projected performance and the estimated or projected effects of the Company's previously announced restatement of prior period results should be disregarded. The Company has completed the internal investigation and related forensic accounting analysis it first reported on November 12, 2003. Based on the outcome of this investigation and analysis, the Company no longer believes that the previously reported preliminary estimates and projections should be relied upon.
>
> Without limiting the generality of the forgoing, the Company identified the following specific information as no longer being reliable:

- All statements concerning the Company's projected performance and/or revenue goals for 2004 made by the Company's former management;

- The statement contained in the Company's November 24, 2003 press release and related Form 8-K filing with the United States Securities and Exchange Commission (and either repeated or not disclaimed in subsequent press releases and SEC filings) that the Company's restatement of prior period results would affect only previously released financial information for 2001, 2002 and the first two quarters of 2003; and

- The preliminary estimates of its third quarter 2003 and restated 2001 and 2002 results set forth in the Company's December 18, 2003 press release and related Form 8-K filing with the United States Securities and Exchange Commission.

The Company cautions shareholders that, because French legal, regulatory and accounting requirements applicable to Virbac S.A. may not be the same as U.S. legal, regulatory and accounting requirements applicable to the Company, Virbac S.A. statements regarding Virbac Corporation's performance should be relied upon only when specifically confirmed and adopted by the Company.

83. On January 13, 2005, the Company announced that it had been notified by the staff of the SEC that it was considering recommending to the SEC that it bring a civil action against the Company alleging that the Company violated certain provisions of the federal securities laws. This notification, commonly referred to as a "Wells Notice," arises out of the SEC's investigation of the Company that commenced in February 2004.

IMPROPER FINANCIAL REPORTING DURING THE RELEVANT PERIOD

84. The Individual Defendants, particularly management and the members of the Audit Committee, were responsible for maintaining and establishing adequate internal controls for Virbac and to ensure that the Company's financial statements were based on accurate financial information. According to GAAP, to accomplish the objectives of accurately recording, processing, summarizing, and reporting financial data, a corporation must establish an

internal accounting control structure. Among other things, the Individual Defendants were required under GAAP, to:

> 1. make and keep books, records, and accounts, which, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the issuer; and
>
> 2. devise and maintain a system of internal accounting controls sufficient to provide reasonable assurances that:
>
> > (a) transactions are executed in accordance with management's general and specific authorization; and
> >
> > (b) transactions are recorded as necessary to permit preparation of financial statements in conformity with generally accepted accounting principles.

85. In addition, according to Appendix D to the Statement on Auditing Standards ("SAS") No. 55, management should consider, among other things, such objectives as: (a) making certain that "[t]ransactions are recorded as necessary ... to permit preparation of financial statements in conformity with generally accepted accounting principles ... [and] to maintain accountability for assets;" and (b) make certain that "[t]he recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences."

86. According to SAS 55.13:

> Establishing and maintaining an internal control structure is an important management responsibility. To provide reasonable assurance that an entity's objectives will be achieved, the internal control structure should be under ongoing supervision by management to determine that it is operating as intended and that it is modified as appropriate for changes in conditions.

87. In addition, Virbac's Audit Committee operates pursuant to an Audit Committee Charter which provides in part that "[t]he primary function of the Audit Committee is to assist the Board of Directors in fulfilling its oversight responsibilities by reviewing: (i) the financial

reports and other financial information provided by the Corporation to any governmental body or the public; (ii) the Corporation's systems of internal controls regarding finance, accounting, legal compliance and ethics that management and the Board have established; and (iii) the Corporation's auditing, accounting and financial reporting processes generally."

88. The fact that Virbac will restate its financial statements for FY:01, FY:02 and the first two quarters of FY:03 is an admission that the financial statements originally issued were false when issued, and that the overstatement of revenues and income was material. Pursuant to GAAP, as set forth in Accounting Principles Board Opinion ("APB") No. 20, the type of restatement announced by Virbac was to correct for material errors in its previously issued financial statements. *See* APB No. 20, &&7-13. The restatement of past financial statements is a disfavored method of recognizing an accounting change because it dilutes confidence by investors in the financial statements, it makes it difficult to compare financial statements, and it is often difficult, if not impossible, to generate the numbers when restatement occurs. *See* APB No. 20, &14. Thus, GAAP provides that financial statements should only be restated in limited circumstances, *i.e.*, when there is a change in the reporting entity, a change in accounting principles used, or to correct an error in previously issued financial statements. Virbac restatement was not due to a change in reporting entity or a change in accounting principles, but rather to errors in previously issued financial statements. Thus, the restatement is an admission by Virbac that its previously issued financial results and its public statements regarding those results were false and misleading based on facts which were known or should have been known at the time of their issuance.

89. GAAP states that "revenue should not be recognized until it is realized or realizable and earned." FASB Concepts Statement No. 5, & 83. The conditions for the recognition of revenue are met when "persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the seller's price is fixed or determinable, collectibility of the sales price is reasonably assured and when the entity has substantially performed the obligations which entitle it to the benefits represented by the revenue." Here, Virbac improperly recognized revenue when revenue from such transactions was not realizable and earned, which is in violation of GAAP.

90. Due to these accounting improprieties, the Company presented its financial results and statements in a manner which violated GAAP, including the following fundamental accounting principles:

(a) The principle that interim financial reporting should be based upon the same accounting principles and practices used to prepare annual financial statements was violated (APB No. 28, &10);

(b) The principle that financial reporting should provide information that is useful to present and potential investors and creditors and other users in making rational investment, credit and similar decisions was violated (FASB Statement of Concepts No. 1, &34);

(c) The principle that financial reporting should provide information about the economic resources of an enterprise, the claims to those resources, and effects of transactions, events and circumstances that change resources and claims to those resources was violated (FASB Statement of Concepts No. 1, &40);

(d) The principle that financial reporting should provide information about how management of an enterprise has discharged its stewardship responsibility to owners (stockholders) for the use of enterprise resources entrusted to it was violated. To the extent that management offers securities of the enterprise to the public, it voluntarily accepts wider responsibilities for accountability to prospective investors and to the public in general (FASB Statement of Concepts No. 1, &50);

(e) The principle that financial reporting should provide information about an enterprise's financial performance during a period was violated. Investors and creditors often use information about the past to help in assessing the prospects of an enterprise. Thus, although investment and credit decisions reflect investors' expectations about future enterprise performance, those expectations are commonly based at least partly on evaluations of past enterprise performance (FASB Statement of Concepts No. 1, &42);

(f) The principle that financial reporting should be reliable in that it represents what it purports to represent was violated. That information should be reliable as well as relevant in a notion that is central to accounting (FASB Statement of Concepts No. 2, &&58-59);

(g) The principle of completeness, which means that nothing is left out of the information that may be necessary to insure that it validly represents underlying events and conditions was violated (FASB Statement of Concepts No. 2, &79); and

(h) The principle that conservatism be used as a prudent reaction to uncertainty to try to ensure that uncertainties and risks inherent in business situations are adequately considered was violated. The best way to avoid injury to investors is to try to ensure

that what is reported represents what it purports to represent (FASB Statement of Concept No. 2, &&95, 97).

91. The Individual Defendants, particularly the Audit Committee, not only caused the Company to violate GAAP, but also caused the Company to violate its own Audit Committee Charter by failing to, among other things, properly implement, review, and oversee: (i) the financial reports and other financial information provided by the Corporation to any governmental body or the public; (ii) the Corporation's systems of internal controls regarding finance, accounting, legal compliance and ethics that management and the Board have established; and (iii) the Corporation's auditing, accounting and financial reporting processes generally. The sheer magnitude of the length of the restatement period - ten quarters - evidences that the Individual Defendants, and particularly the Audit Committee, utterly failed to establish and maintain adequate internal controls for Virbac to ensure that the Company's financial results were calculated and recorded in accordance with GAAP.

ILLEGAL INSIDER SELLING

92. While in possession of the undisclosed material adverse information, the Insider Selling Defendant sold the following shares of Virbac stock:

Name	Date	Shares	Price	Proceeds
Pascal Boissy	9/10/2003	8000	$ 6.95	$ 55,600.00
	12/16/2002	5000	$ 5.16	$ 25,800.00
	8/2/2001	500	$ 4.80	$ 2,400.00
	8/2/2001	100	$ 4.81	$ 481.00
	8/2/2001	2000	$ 4.90	$ 9,800.00
	8/3/2001	7400	$ 4.75	$ 35,150.00
		23000		**$129,231.00**
Total:		**23000**		**$129,231.00**

DERIVATIVE AND DEMAND FUTILITY ALLEGATIONS

93. Plaintiffs bring this action derivatively in the right and for the benefit of Virbac to redress injuries suffered, and to be suffered, by Virbac as a direct result of the breaches of fiduciary duty, abuse of control, gross mismanagement, waste of corporate assets, unjust enrichment, violations of the Sarbanes-Oxley Act of 2002 as well as the aiding and abetting thereof, by the Individual Defendants. Virbac is named as a nominal defendant solely in a derivative capacity. This is not a collusive action to confer jurisdiction on this Court that it would not otherwise have.

94. Plaintiffs will adequately and fairly represent the interests of Virbac in enforcing and prosecuting its rights.

95. Plaintiffs are and were owners of the stock of Virbac during times relevant to the Individual Defendants' wrongful course of conduct alleged herein, and remain shareholders of the Company.

96. During the Relevant Period, the Board of Directors of Virbac consisted of the following six individuals: defendants Bell, Boissy, Maree, Pages, Poitevint and Willk. Plaintiffs have not made any demand on the Board of Directors of Virbac to institute this action because such a demand would be a futile, wasteful and useless act, particularly for the following reasons:

(a) Virbac has significant transactions with Virbac S.A. which indirectly owns approximately 61% of Virbac's common stock. Defendants Pages, Boissy and Maree, have significant ties to both Virbac and Virbac S.A. which render them incapable of considering a pre-suit demand. The Company's most recent Proxy Statement describes the relation these defendants share with both Virbac and Virbac S.A.:

$ PIERRE PAGES, D.V.M., has been a Director since March 1999. Dr. Pages has served as the Chief Operating Officer of Virbac S.A. since December 1999. From December 1996 to December 1999, he served as Executive Vice President in charge of Operations, Production, and Quality Assurance. From December 1992 to December 1996, Dr. Pages was Executive Vice President in charge of Operations. Prior to becoming Executive Vice President, Dr. Pages served as Director of International Operations from 1990 through 1995. Since December 1992, Dr. Pages has been a member of the Directory Board of Virbac S.A.

$ PASCAL BOISSY has served as the Company's Chairman since March 1999. Mr. Boissy served as President and Chairman of Virbac S.A. from April 1992 until the end of 1999 and was responsible for the Company's merger with Agri-Nutrition Group in March 1999. From 1973 to April 1992, Mr. Boissy served Virbac S.A. in numerous management positions. Virbac S.A. is a French veterinary pharmaceutical manufacturer that indirectly owns approximately 61% of the Company's outstanding common stock. He served on Virbac S.A.'s Board of Directors from 1989 through 1999, and served as President and Chairman of the Board of Directors of various subsidiaries of Virbac S.A.

$ ERIC MAREE has served as a Director since January 2000. Mr. Maree joined Virbac S.A. in October 1999 and was appointed its Chairman of the Board of Management, effective December 15, 1999;

(b) Moreover, Boissy serves on Virbac's Audit Committee and Pages serves on its Compensation Committee. These long-standing business ties that these defendants share between their service to both Virbac and Virbac S.A. render them incapable of objectively considering a pre-suit demand. Thus, any demand to institute this action on the Virbac Board would clearly be a futile, useless and wasteful act;

(c) Defendant Bell held various management positions during the previous 13 years with Fort Dodge Animal Health/American Cyanamid, an international manufacturer and distributor of animal health pharmaceuticals and biologicals, and a subsidiary of Wyeth. Wyeth maintains significant business ties with King Pharmaceuticals, Inc. ("King Pharmaceuticals"). In

September 2003 Virbac acquired the animal health products division of King Pharmaceuticals for $15.1 million in cash. The acquisition was quickly and deliberately consummated by defendants prior to announcing the restatement which would inevitably jeopardize the Company's credit position and stock price. The acquisition was intended to provide a new source of revenue to fund operations since the Company would, in all likelihood, be frozen out of the credit and equities markets after the announcement. Due to defendant Bell's involvement with this transaction business relationship with the Wyeth subsidiary, Fort Dodge Animal Health/American Cyanamid and in turn, King Pharmaceuticals, Bell is incapable of making a disinterested evaluation of the claims in this action or of exercising his valid business judgment because such an adversarial position would inevitably highlight Bell's own wrongdoing

(d) In addition, defendant Bell served on the 2003-2004 Board of Directors of the Animal Health Institute ("AHI") which represents manufacturers of animal health care products intended to produce a safe supply of meat, milk poultry and eggs and veterinary medicines. Defendant Maree is a member of the Board of the International Federation for Animal Health ("IFAH") which is the international federation which represents manufacturers of veterinary medicines, vaccines and other animal health products to "promote a harmonized, science-based regulatory and trade framework, and marketplace environment that supports and animal health industry which is economically viable and ... contribut[es] to a healthy and safe food supply " AHI is a member association of IFAH. Because of Defendants Bell and Maree's relationship, neither defendant is disinterested nor independent and are therefore incapable of exercising valid business judgment with respect to a determination to proceed with this action and an evaluation of plaintiffs' claims.

(e) Defendant Poitevint was the chairman of Agri-Nutrition Group Limited prior to its merger with Virbac, Inc. to form Virbac Corporation. According to Virbac's Notice of 2003 Annual Meeting of Stockholders, defendant Boissy "was responsible for the Company's merger with Agri-Nutrition Group in March 1999." Poitevint is beholden to Boissy by virtue of Boissy's role in the merger with Agri-Nutrition Group and is therefore incapable of disinterestedly and independently considering a demand to commence action against the Company.

(f) The Compensation Committee of the Board determines, after consulting with the CEO, establishes, authorizes and administers Virbac compensation policies, practices and plans for Virbac directors, executive officers and other key personnel. The Compensation Committee is comprised of defendants Pages and Poitevint. As the members of the Compensation Committee singularly control the other defendants' awards, the remaining members of the Board will not institute this action against defendants Pages and Poitevint. To do so would jeopardize each defendant's personal financial compensation. Thus, demand on defendants Bell, Boissy, Maree and Willk is futile;

(g) The principal professional occupation of defendant Bell was his employment with Virbac, pursuant to which he received substantial monetary compensations and other benefits. Specifically, for FY:02 and FY:01, Virbac paid defendant Bell $300,850 and $226,500, respectively, in salary, bonus and other compensation, and granted him 18,000 options to purchase Virbac stock each year. Accordingly, defendant Bell lacked independence from defendants Pages and Poitevint, who exert influence over their compensation by virtue of their position as members of the Compensation Committee. This lack of independence rendered

defendant Bell incapable of impartially considering a demand to commence and vigorously prosecute this action;

(h) According to Virbac Proxy Statements filed with the SEC, Boissy, Poitevint and Willk served on the Audit Committee during the Relevant Period. The Audit Committee is responsible for reviewing the activities of Virbac internal auditors and independent accountants. The Audit Committee evaluates Virbac organization and its internal controls, policies, procedures and practices to determine whether they are reasonably designed to: provide for the safekeeping of Virbac assets; assure the accuracy and adequacy of Virbac records and financial statements; reviews Virbac financial statements and reports; monitors compliance with Virbac internal controls, policies, procedures and practices; and receives direct compliance reports from Virbac internal auditors and General Counsel and from the independent accountants. Nonetheless, the Audit Committee recommended that the Board include the improper audited consolidated financial statements in Virbac Annual Reports for FY:01 and FY:02, and the first two quarters of FY:03 as filed with the SEC. By such actions, these defendants breached their duties by causing or allowing the improper financials described above. As a result of these defendants' breach of their duties, any demand upon them is futile;

(i) The entire Virbac Board and senior management participated in the wrongs complained of herein. Virbac directors are not disinterested or independent due to the following: defendants Bell, Boissy, Maree, Pages, Poitevint and Willk served on the Company's Board during the Relevant Period. Pursuant to their specific duties as Board members, each was charged with the management of the Company and to conduct its business affairs. Each of the above-referenced defendants breached the fiduciary duties that they owed to Virbac and its

shareholders in that they failed to prevent and correct the improper financials. All of these defendants - the entire Board - signed the Company's false and misleading Annual Reports for FY:01 and FY:02. Thus, the Virbac Board cannot exercise independent objective judgment in deciding whether to bring this action or whether to vigorously prosecute this action because its members are interested personally in the outcome as it is their actions that have subjected Virbac to millions of dollars in liability for possible violations of applicable accounting and securities laws;

(j) The Director Defendants, because of their inter-related business, professional and personal relationships, have developed debilitating conflicts of interest that prevent the Board members of the Company from taking the necessary and proper action on behalf of the Company as requested herein. In addition to the conflicts that exist as a result of their participation in the improper accounting, as detailed herein *supra*, the majority of the Board, are subject to numerous prejudicial entanglements as described in &&21-26, particularly with respect to their connections to both Virbac and Virbac S.A.;

(k) The Director Defendants of Virbac, as more fully detailed herein, participated in, approved and/or permitted the wrongs alleged herein to have occurred and participated in efforts to conceal or disguise those wrongs from Virbac stockholders or recklessly and/or negligently disregarded the wrongs complained of herein, and are therefore not disinterested parties;

(l) In order to bring this suit, all of the directors of Virbac would be forced to sue themselves and persons with whom they have extensive business and personal entanglements, which they will not do, thereby excusing demand;

(m) The acts complained of constitute violations of the fiduciary duties owed by Virbac officers and directors and these acts are incapable of ratification;

(n) Each of the Director Defendants of Virbac authorized and/or permitted the false statements disseminated directly to the public or made directly to securities analysts and which were made available and distributed to shareholders, authorized and/or permitted the issuance of various of the false and misleading statements and are principal beneficiaries of the wrongdoing alleged herein, and thus could not fairly and fully prosecute such a suit even if such suit was instituted by them;

(o) Any suit by the current directors of Virbac to remedy these wrongs would likely expose the Individual Defendants and Virbac to further violations of the accounting and securities laws that would result in civil actions being filed against one or more of the Individual Defendants, thus, they are hopelessly conflicted in making any supposedly independent determination whether to sue themselves;

(p) Virbac has been and will continue to be exposed to significant losses due to the wrongdoing complained of herein, yet the Individual Defendants and current Board have not filed any lawsuits against themselves or others who were responsible for that wrongful conduct to attempt to recover for Virbac any part of the damages Virbac suffered and will suffer thereby;

(q) Indeed, despite the mandatory reimbursement provision under Section 304 of Sarbanes-Oxley, the Board has refused to take advantage of the Company's legal rights under the mandatory reimbursement provisions of Section 304 of Sarbanes-Oxley to require defendants Bell or Rougraff to disgorge all illicitly obtained incentive compensation even though he

resigned in the midst of the investigation into the Company's improper accounting clearly demonstrating the Company or the Board will not take institute any action against Bell further making an demand on the Board clearly futile;

(r) If the current directors were to bring this derivative action against themselves, they would thereby expose their own misconduct, which underlies allegations against them contained in class action complaints for violations of securities law, which admissions would impair their defense of the class actions and greatly increase the probability of their personal liability in the class actions, in an amount likely to be in excess of any insurance coverage available to the Individual Defendants. In essence, they would be forced to take positions contrary to the defenses they will likely assert in the securities class actions. They will not do this. Thus, demand is futile; and

(s) If Virbac current and past officers and directors are protected against personal liability for their acts of mismanagement, abuse of control and breach of fiduciary duty alleged in this Complaint by directors' and officers' liability insurance, they caused the Company to purchase that insurance for their protection with corporate funds, *i.e.*, monies belonging to the stockholders of Virbac. However, due to certain changes in the language of directors' and officers' liability insurance policies in the past few years, the directors' and officers' liability insurance policies covering the defendants in this case contain provisions that eliminate coverage for any action brought directly by Virbac against these defendants, known as, *inter alia*, the "insured versus insured exclusion." As a result, if these directors were to sue themselves or certain of the officers of Virbac, there would be no directors' and officers' insurance protection and thus, this is a further reason why they will not bring such a suit. On the other hand, if the

suit is brought derivatively, as this action is brought, such insurance coverage exists and will provide a basis for the Company to effectuate recovery. If there is no directors' and officers' liability insurance at all then the current directors will not cause Virbac to sue them, since they will face a large uninsured liability.

97. Moreover, despite the Individual Defendants having knowledge of the claims and causes of action raised by plaintiffs, the current Board has failed and refused to seek to recover for Virbac for any of the wrongdoing alleged by plaintiffs herein.

98. Plaintiffs have not made any demand on shareholders of Virbac to institute this action since such demand would be a futile and useless act for the following reasons:

(a) Virbac is a publicly held company with approximately 24 million shares outstanding, and thousands of shareholders;

(b) Making demand on such a number of shareholders would be impossible for plaintiffs who have no way of finding out the names, addresses or phone numbers of shareholders; and

(c) Making demand on all shareholders would force plaintiffs to incur huge expenses, assuming all shareholders could be individually identified

DAMAGES TO VIRBAC

99. As a direct result of Individual Defendants' breaches of their fiduciary duties and other violations of law, the Company has been severely and irreparably damaged, including, but not limited to:

(a) As a result of the delisting from Nasdaq and the Company's stock trading only on Pink Sheets, it suffered damages, including but not limited to: (i) a decreased ability to access the

capital markets; (ii) an inability, for all practicable purposes, to use Company stock as currency for acquisitions; and (iii) increased difficulty securing debt financing on favorable terms;

(b) Causing the Company to be subjected to a formal investigation by the SEC and to receive a Wells Notice indicating that the Company may face a civil action brought by the SEC for violating the federal securities laws.

(c) Having to incur and waste Company funds in legal and professional fees to amend its previously filed financial results and for representation before the SEC and to defend itself in shareholder class actions brought against the Company;

(d) Being exposed to tens of millions of dollars in potential liability for violations of federal and state law, including the federal securities laws, which will cost the Company millions to defend and tens of millions more to settle;

(e) Suffering severe and irreparable damage to its credibility, reputation and goodwill; and

(f) To cause the Company to lose over $108 million in market capitalization or over 58% of the Company's value including $41.14 million in a single day.

COUNT I

Against Defendants Bell and Rougraff for Violations of Sarbanes-Oxley Act of 2002

100. Plaintiffs incorporate by reference and reallege each and every allegation set forth above, as though fully set forth herein.

101. Pursuant to the Sarbanes-Oxley Act of 2002, Section 304, because Virbac will be required to prepare an accounting restatement for FY:01 and FY:02 and the first two quarters of FY:03 due to material noncompliance with GAAP, as a result of improper financial reporting,

defendant Bell, as Virbac's CEO and defendant Rougraff, as Virbac's CFO, are required to reimburse Virbac for all bonuses or other incentive-based or equity-based compensation, received by them from Virbac from 2001 through the first two quarters of 2003, as identified herein.

102. Defendants Bell and Rougraff are also liable to plaintiffs for reasonable costs and attorneys' fees in the prosecution of this derivative action on behalf of Virbac.

COUNT II

Against All Individual Defendants for Breach of Fiduciary Duty

103. Plaintiffs incorporate by reference and reallege each and every allegation contained above, as though fully set forth herein.

104. The Individual Defendants owed and owe Virbac fiduciary obligations. By reason of their fiduciary relationships, the Individual Defendants owed and owe Virbac the highest obligation of good faith, fair dealing, loyalty and due care.

105. The Individual Defendants, and each of them, violated and breached their fiduciary duties of care, loyalty, reasonable inquiry, oversight, good faith and supervision.

106. Each of the Individual Defendants had actual or constructive knowledge that they had caused the Company to improperly misrepresent the financial results of the Company and failed to correct the Company's publicly reported financial results and guidance. These actions could not have been a good faith exercise of prudent business judgment to protect and promote the Company's corporate interests.

107. As a direct and proximate result of the Individual Defendants' failure to perform their fiduciary obligations, Virbac has sustained significant damages. As a result of the misconduct alleged herein, the Individual Defendants are liable to the Company.

108. Plaintiffs on behalf of Virbac have no adequate remedy at law.

COUNT III

Against All Individual Defendants for Abuse of Control

109. Plaintiffs incorporate by reference and reallege each and every allegation contained above, as though fully set forth herein.

110. The Individual Defendants' misconduct alleged herein constituted an abuse of their ability to control and influence Virbac, for which they are legally responsible.

111. As a direct and proximate result of the Individual Defendants' abuse of control, Virbac has sustained significant damages.

112. As a result of the misconduct alleged herein, the Individual Defendants are liable to the Company.

113. Plaintiffs on behalf of Virbac have no adequate remedy at law.

COUNT IV

Against All Individual Defendants for Gross Mismanagement

114. Plaintiffs incorporate by reference and reallege each and every allegation contained above, as though fully set forth herein.

115. By their actions alleged herein, the Individual Defendants, either directly or through aiding and abetting, abandoned and abdicated their responsibilities and fiduciary duties with regard to prudently managing the assets and business of Virbac in a manner consistent with the operations of a publicly held corporation.

116. As a direct and proximate result of the Individual Defendants' gross mismanagement and breaches of duty alleged herein, Virbac has sustained significant damages in excess of hundreds of millions of dollars.

117. As a result of the misconduct and breaches of duty alleged herein, the Individual Defendants are liable to the Company.

118. Plaintiffs on behalf of Virbac have no adequate remedy at law.

COUNT V

Against All Individual Defendants for Waste of Corporate Assets

119. Plaintiffs incorporate by reference and reallege each and every allegation contained above, as though fully set forth herein.

120. As a result of the improper accounting, and by failing to properly consider the interests of the Company and its public shareholders by failing to conduct proper supervision, Defendants have caused Virbac to waste valuable corporate assets by paying incentive based bonuses to certain of its executive officers and incur potentially millions of dollars of legal liability and/or legal costs to defend Defendants' unlawful actions including defending the SEC and Justice Department investigations.

121. As a result of the waste of corporate assets, the Individual Defendants are liable to the Company.

122. Plaintiffs on behalf of Virbac have no adequate remedy at law.

COUNT VI

Against All Defendants for Unjust Enrichment

123. Plaintiffs incorporate by reference and reallege each and every allegation set forth above, as though fully set forth herein.

124. By their wrongful acts and omissions, defendants were unjustly enriched at the expense of and to the detriment of Virbac.

125. Plaintiffs, as shareholders and representatives of Virbac, seek restitution from these Defendants, and each of them, and seeks an order of this Court disgorging all profits, benefits and other compensation obtained by these Defendants, and each of them, from their wrongful conduct and fiduciary breaches.

COUNT I

Against the Insider Selling Defendant for Breach of Fiduciary Duties for Insider Selling and Misappropriation of Information

126. Plaintiffs incorporate by reference and reallege each and every allegation set forth above, as though fully set forth herein.

127. At the time of the stock sales set forth herein, the Insider Selling Defendant knew the information described above, and sold Virbac common stock on the basis of such information.

128. The information described above was proprietary non-public information concerning the Company's financial condition and future business prospects. It was a proprietary asset belonging to the Company, which the Insider Selling Defendant used for his own benefit when he sold Virbac common stock.

129. At the time of his stock sales, the Insider Selling Defendant knew that the Company's revenues were materially overstated. The Insider Selling Defendant's sales of Virbac common stock while in possession and control of this material adverse non-public information was a breach of his fiduciary duties of loyalty and good faith.

130. Since the use of the Company's proprietary information for their own gain constitutes a breach of the Insider Selling Defendant's fiduciary duties, the Company is entitled

to the imposition of a constructive trust on any profits the Insider Selling Defendant obtained thereby.

PRAYER FOR RELIEF

WHEREFORE, plaintiffs demand judgment as follows:

A. Against all of the Individual Defendants and in favor of the Company for the amount of damages sustained by the Company as a result of the Individual Defendants' breaches of fiduciary duties, abuse of control, gross mismanagement, waste of corporate assets and unjust enrichment;

B. Declaring that Defendants Bell and Rougraff are liable under the Sarbanes-Oxley Act of 2002 and requiring them to reimburse Virbac for all bonuses or other incentive-based or equity based compensation received by them between 2001 and the first two quarters of 2003;

C. Extraordinary equitable and/or injunctive relief as permitted by law, equity and state statutory provisions sued hereunder, including attaching, impounding, imposing a constructive trust on or otherwise restricting the proceeds of defendants' trading activities or their other assets so as to assure that plaintiffs on behalf of Virbac have an effective remedy;

D. Awarding to Virbac restitution from the Defendants, and each of them, and ordering disgorgement of all profits, benefits and other compensation obtained by the defendants including all illegal proceeds from insider selling;

E. Awarding to plaintiffs the costs and disbursements of the action, including reasonable attorneys' fees, accountants' and experts' fees, costs, and expenses; and

F. Granting such other and further relief as the Court deems just and proper.

JURY DEMAND

Plaintiffs demand a trial by jury.

DATED: March 1, 2005

JONES ROOK AUSTIN, LLP

ROBERT AUSTIN
State Bar No. 00790248
5307 E. Mockingbird Lane #810
Dallas, Texas 75206
Telephone: 214/828-9200
Facsimile: 214/828-9291

REICH & BINSTOCK
PAUL T. WARNER
Federal Bar No. 25143
State Bar No. 00791884
4625 San Felipe, Suite 1000
Houston, TX 77027
Telephone: 713/622-7271
Facsimile: 713/623-8724

Co-Liaison Counsel for Plaintiffs

ROBBINS UMEDA & FINK, LLP
BRIAN J. ROBBINS
JEFFREY P. FINK
610 West Ash Street, Suite 1800
San Diego, CA 92101
Telephone: 619/525-3990
Facsimile: 619/525-3991

FARUQI & FARUQI, LLP
NADEEM FARUQI
320 East 39th Floor
New York, NY 10016
Telephone: 212/983-9330
Facsimile: 212/983-9331

Co-Lead Counsel for Plaintiffs

G \Virbac\Complaints\Cons Der Cpt 1 doc

CERTIFICATE OF SERVICE

This is to certify that a true and correct copy of the foregoing pleading has been served on all counsel of record on this the 1st day of March, 2005.

ROBERT E. AUSTIN IV